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PHOTO: T. MICHAEL KEZA

At the former Chanute Air Force Base, *in Rantoul, Ill., Robert and Ronald Smith run a $2 million business making hospital gowns. Such new uses for deactivated military bases can help communities rebound from defense downsizing. Cover Story, Page 20.*



PHOTO: ARNOLD F. GERO

"It's a whole new world" *when you expand your business, says store owner Terri Bowersock. Managing, Page 53.*

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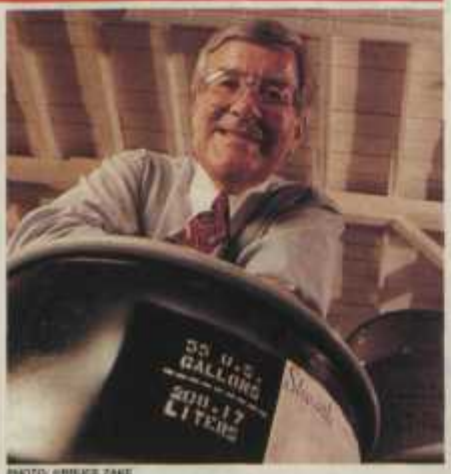


PHOTO: BRUCE ZAKE

Metric conversion *could increase production costs for paint manufacturer Ronald Lyons. Regulation, Page 62.*

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Editor's Note

Era Ends, Opportunity Begins



For more than 50 years, the U.S. military has gone through buildups that brought prosperity to many communities and individual businesses and retrenchments that required difficult adjustments by those same communities and businesses. It appears, however, that this cycle has ended. While the world will never be without its trouble spots, the end of the U.S.-Soviet confrontation and its ever-present risk of nuclear war has brought a new round of military cutbacks with no signs of another significant buildup on the horizon.

What these developments mean to the American communities and small businesses that have relied on military spending is the subject of this month's cover story on defense conversion, "New Mission," on Page 20. Reported and written by Senior Editor John S. DeMott, it provides excellent insights into coping with the loss of defense business.

Although this article is about losing military customers, it holds lessons for any firm or community that is economically threatened. While there are many types of setbacks, there are common denominators for dealing with them.



This issue also contains our annual report on luxury cars, Page 57. Along with an update on how technology is adding to their comfort and safety, there's some welcome news on prices for 1995. It's an impressive listing of impressive vehicles.

As noted here last month, this issue marks the debut of our Small Business Financial Adviser section, which will bring you information you need for managing money for both your business and yourself (Page 70). Its expert guidance will help you make those important decisions on financial matters. Your first investment, the time you take to read it, will be a rewarding one.

A final reminder: Nov. 18 is the deadline for entering the 1995 Blue Chip Enterprise Initiative. Call 1-800-FOR-BCEI (1-800-367-2234) for an application.

Robert T. Gray
Editor

Nation's Business

Letters

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Freedom At Stake In Health-Care Debate

In her September letter, Robin Brenner notes that President Clinton's health-care plan would have saved her company money. For that reason, she deplores the lack of support from the small-business community.

My business (35 employees), while somewhat larger than Ms. Brenner's, would have also saved money under the Clinton plan, and the only cost to us would have been another chunk of our freedom. When it comes to buying control of our lives, nobody can outbid the government.

T.F. Skehan
Dressel Welding Supply, Inc.
York, Pa.



PHOTO: T. MICHAEL KEZA

Government-Run Failure

When I read Robin Brenner's letter on health-care reform, I found it hard to believe that a business owner would be foolish enough to think that any government program could save money for business. Just look at Social Security, Medicare, or Medicaid. Pull your head out of the sand, and you will see that government-run anything is a dismal failure.

Michael J. Bowen, CEO
Bowen Machine & Fabricating, Inc.
El Paso, Texas

"Best" In The World

Highlights of the "best" health-care system in the world (for those of us who have insurance):

- People who are insured also pay for the uninsured.
- Insurance costs escalate steadily at three to four times the rate of inflation.
- Patients have a choice of doctors and pharmacists, who in turn can and do charge as much as they want for their products and services.
- Insurance companies pay only what they "allow" for a claim, leaving the patient responsible for the balance.
- Have one serious illness and you will likely be classified as a pre-existing condition (meaning you may then be unable to purchase coverage in the future).

Robert C. Oliger
Clinton, Ohio

Who Is Satisfied?

For your benefit: The percentage of Americans satisfied with how the nation's health-care system works is *not* 85 percent, as your September editorial said.

- All Americans are *not* Republicans.
- I thought *Nation's Business* was a news organization. I'm entitled to be wrong now and then.

Joe Colker, Chairman
W.Va. Electric Supply Co.
Huntington, W.Va.

[Editor's Note: The editorial actually stated that 85 percent of Americans were satisfied with the way the present health-care system works "for them." Numerous surveys support that figure.]

Product-Liability Laws' Impact On Business

Tom Determan, the engineer who in his August letter said that liability lawsuits exact a high toll on "beneficial goods and services," could not have been more off the mark.

The threat of a lawsuit should not create an atmosphere of fear for engineers, designers, and chief executive officers. Instead, it should provide a guideline and a challenge to do better. Indeed, product-liability laws have encouraged safer and improved design of products. A business is only required to be accountable when a product is proven to be both defective *and* unreasonably dangerous.

Contrary to the engineer's claim, the law imposes liability not on the production of "beneficial goods" but on the production of goods that are both defective and unreasonably dangerous.

George A. LaMarca, Vice President
Iowa Trial Lawyers Association
West Des Moines

Communist Chinese Are Capitalists At Heart

Regarding Rhonda Morkes' unsupported comments on China in her September letter: My first trip to Beijing was long

before the 1989 protests at Tiananmen Square, and I am fortunate enough to have been there and other places in China since then.

The Chinese have a Communist government, but they are capitalists at heart, and there are no slave laborers. They all have jobs and are working hard to improve their personal lifestyles and freedoms. Today, they can own their businesses, and many have joined together to do just that. They have been oppressed, but that is changing daily.

There have been abuses, and there will always be some. We ourselves have experience abusing people; just ask a black person, or an Asian who spent time in one of our World War II internment camps.

Bob Ellsworth, President
E-COMMS, Inc.
Gig Harbor, Wash.

How Some Temps Manipulate The System

I read your August article, "Temps' Unemployment Claims." There are indeed many temporary employees who work just long enough to qualify for unemployment benefits. These people know the system far better than the unemployment representatives who provide service for them.

Overall, I would contend that the majority of temporary employees are hard-working, dedicated people in desperate need of "normal" employment. Because of changes in the economic environment, the need for temporary employment is on the increase nationwide, with no end in sight.

Being human, we will always have to contend with a certain segment who will continue to abuse the system. I can't stress enough the importance of keeping complete and accurate records.

Ronald Gaillardetz, President
Gaillardetz Employment
Keene, N.H.

Don't Scrimp On Public Relations

Re the September Managing Your Small Business item on media relations, "Getting Coverage In Print And On The Air": Small businesses—although they feel the crunch of budget more keenly than well-funded, more-established businesses—should still be prepared to spend at least 8 percent of their expected annual sales on public relations and advertising.

Those who are not experienced in the art of our profession should not try to plan a marketing and public-relations program.

Alice Dykeman
Fellow, Public Relations Society of America
Dykeman Associates, Inc.
Dallas

Davis-Bacon Protects Construction Workers

In his August letter responding to June's Where I Stand survey questions, Donald R. Dorey said the Davis-Bacon Act wastes "hundreds of millions of tax dollars annually" and is "a terrible law conceived in discrimination." In reality, the Davis-Bacon Act protects construction workers from predatory scab merchant contractors. It's hard to find fault with a law that creates job harmony, livable wages, employment benefits, and job safety, and also forces all contractors to play on the same, level field.



PHOTO: T. MICHAEL KEZA

Timothy J. Heyden
East Concord, N.Y.

Bruce Babbitt's War On The West

Republican Rep. Craig Thomas of Wyoming was absolutely correct in his September letter in which he charged Interior Secretary Bruce Babbitt with orchestrating a war on the West.

Here in Alaska, Babbitt has, among other things, made out-of-court settlements in two environmentalist lawsuits that will make it even more difficult than it already is to develop projects.

Steven C. Borell
Executive Director
Alaska Miners Association
Anchorage

Better Business Bureaus Can Aid In Mediation

The July Family Business Observations column on using mediation to resolve conflicts neglected to mention one of the most important mediation resources available to small businesses and their customers nationwide: the Better Business Bureau.

Better Business Bureaus (BBBs) are nonprofit business member organizations dedicated to promoting an ethical marketplace. Hundreds of BBB staff people work daily to help resolve customer complaints through conciliation and mediation. Thousands of trained, professional arbitrators are also available through local BBBs when needed.

These services are provided at low cost from 163 BBB offices in the United States and from 18 BBB offices in Canada. For more information, readers can call their local BBBs or the Council of Better Business Bureaus at 1-800-537-4600.

James L. Bast
President and CEO
Council of Better Business Bureaus, Inc.
Arlington, Va.

This Company Name Is A Real Grabber

Re "What's In A Name," in the September issue: The Mattimore Group ... hmmm ... catchy name. Makes me want to pay the company to name my business.

Teri Simmons, General Manager
C.A.R. Rental, Inc.
Hertz System Member
Jefferson County Airport
Beaumont, Texas

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Entrepreneur's Notebook

By Maria Elena Toraño

New Opportunities, New Directions

Yesterday, I was in the public-relations business. Today, my Miami company is involved in information-management systems, environmental consulting, and a few interesting sidelines. I'm still deciding what to do tomorrow.

If this sounds unfocused, you've got the wrong impression. Instead of specializing in one industry, my company is set up to respond to opportunity as it arises in various fields.

Opportunity like that comes and goes; the trick is to make the most of it while you can.

That's why I built the company to be like an egret: lean, flexible, and ready to take off. It's a strategy that ensures that the work is never boring and the workload is never too light.

Unlike a lot of entrepreneurs, I was not initially captivated by a desire to run a company. I arrived from Cuba in 1960 with $5 and a degree in education, and I got work in a bakery.

Over the next 20 years, I rose through a series of positions in the public and private sectors. I eventually parlayed a job as an Eastern Air Lines reservations agent into a position with the company in marketing and corporate communications. A key responsibility was building Eastern's presence in Miami's growing Latin community. I was also involved in civic affairs, helping to encourage the beautification of Miami's Little Havana and working to promote understanding among Miami's ethnic communities.



PHOTO: STOR SALYER

Maria Elena Toraño *likes to keep her Miami company lean, flexible, and ready to take off.*

My civic activities in South Florida helped lead to an economic development appointment as associate director of the U.S. Community Services Administration under President Carter.

When that federal appointment ended, I couldn't see myself going back to work for corporate America or for state or local government. After eliminating things I didn't want to do, I discovered that the best choice was to open my own business.

The prominence of an appointment in Washington made public relations a logical field in which to begin. Our first customer was the late Joe Robbie, owner of the Miami Dolphins. Soon, we had clients that included the Tobacco Institute of America and the Coors Brewing Co.

In 1986, while working on a project for the U.S. Small Business Administration, I read about how minority companies can get help with business development under Section 8(a) of the Small Business Act. Soon, our company, Maria Elano Toraño Associates (META), Inc., was certified as an 8(a) company by the Small Business Administration and was awarded a management information systems contract with the Defense Contract Audit Agency.

Later, as the Cold War was ending, META entered the environmental field, preparing detailed environmental-impact statements on nuclear-weapons facilities for the Department of Energy.

As we expanded into management consulting, a META subsidiary began working with the Resolution Trust Corp., managing and liquidating close to $1 billion worth of assets held by failed financial institutions.

The short-term nature of the RTC work, however, made it necessary to hire expert employees accustomed to lucrative short-term assignments. At its peak, our RTC operations employed about 45 people; today it has about half that number.

The same applies to public relations. While PR once drove the organization, we now have just a half-dozen employees doing public-information work for state and local government agencies.

As you can see, the company is constantly trimming fat so it can afford to fill that next special niche, which looks as if it might be health-care management and administration.

To me, being alert to new opportunities means knowing what people want, what they need, and where the country is going. A lot of entrepreneurs might find the pace of running a business and looking for new ventures frantic, but I believe a constant search for opportunity and growth is fun.

From a single office with four employees, the company has grown to 250 employees with six offices in the United States, projects overseas, and annual revenue of $22 million. In a typical year, the company is awarded long-term contracts worth almost $110 million.

For us, a flexible approach is a strategy that works. NB

What I Learned

A flexible approach enables a growing company to respond to a constantly changing business climate.

Maria Elena Toraño is founder of Miami-based META, Inc. She prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

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Dateline: Washington

Business news in brief from the nation's capital.

GOVERNMENT

Streamlining Yields Savings, Gore Says

Vice President Al Gore says ongoing administration efforts to make the federal government "work better and cost less" have saved taxpayers more than $59 billion the first year.

The so-called reinventing-government initiative, detailed in September 1993 in Gore's *National Performance Review* report, calls for more than 800 changes in the programs and processes of federal agencies. If all the alterations are made, projected savings would total $108 billion by 1998. Moreover, the report said, the streamlined federal government would be more "customer-friendly."



Estimated Savings From Reinventing Government

(In Billions)

	Estimate Of Recommendations	Estimate Of Actions To Date
Streamlining Bureaucracy Through Re-engineering	$40.4	$45.9
Reinventing Federal Procurement	22.5	12.3*
Re-engineering Through Information Technology	5.4	0.3
Reducing Intergovernmental Administrative Costs	3.3	0
Changes In Individual Agencies	36.4	0.7
Totals	**108.0**	**59.2**

*Projected savings related to the procurement-reform bill signed into law in mid-October, after the report was issued.

SOURCE: REPORT OF THE NATIONAL PERFORMANCE REVIEW, STATUS REPORT, SEPTEMBER 1994

First-year savings have been realized in part from revamping the government's purchasing system, eliminating some programs, and reducing the federal work force, Gore says.

On the customer-service front, the vice president notes, the Small Business Administration has implemented a one-page application for loans under $100,000; it replaces a multiple-page form. (For more information, see "Some Rest For The Paperwork-Weary," in the June issue.)

Moreover, lenders can now impose their own documentation requirements for SBA-backed loans.

To those who question whether government is capable of reversing the historical trend toward ever-bigger government, Gore replies: "Over the next few years, we will be able to build sufficient momentum into this process of [downsizing so] that reform will be, for all practical purposes, unstoppable."

But despite the vice president's assurances of a leaner, friendlier bureaucracy, it remains to be seen whether he can truly allay the fear that grips many business people upon hearing the infamous words, "I'm from the government, and I'm here to help you."

—David Warner

THE LAW

The Latest On LLCs: Uniform Law Advances

In our August story on "A Liability Shield For Entrepreneurs," we pointed out the significant differences in emerging state laws governing limited liability companies (LLCs).

And we noted that there must be reciprocity or uniformity among states if this potentially advantageous business structure is to gain widespread popularity.

The states appear to be moving toward common ground on the matter. A draft law called the Uniform Limited Liability Company Act was prepared for the National Conference of Commissioners on Uniform State Laws. Now in the final editing stage, the draft act is expected to be ready for adoption by states before year's end.

Two features of the draft are particularly important to small entrepreneurs, says author Carter Bishop. The first is the sole-member LLC, which would provide liability protection for sole proprietorships. The other is the at-will organization LLC. In an at-will LLC, says Bishop, every member has the power to withdraw at any time and receive fair market value for his or her interest.

States do not have to accept the draft law, and many might be reluctant to do so if they already have enacted a statute. And states can add provisions of their own—like New York's requirement that new LLCs take out expensive, weeks-long legal advertisements announcing their formation.

What could encourage states to adopt the draft law, says Edward Cutler, partner in the law firm of Carlton Fields Ward Emmanuel Smith & Cutler, in Tampa, Fla., and chairman of the drafting committee on the uniform LLC act, is that the Internal Revenue Service is studying it: If the IRS indicates it likes it, many states may adopt it for that reason alone.

—Ripley Hotch

FINANCE

Business Tax Breaks Scheduled To Expire

Just as Congress allowed the 25 percent health-insurance tax deduction for self-employed persons to expire Dec. 31, 1993 (see story on Page 30), it is about to let two other business-related tax breaks expire this coming Dec. 31.

One is the deduction employers can take for qualified tuition payments on behalf of employees. The payments may total as much as $5,250 per employee per year. The other is the targeted jobs credit of up to 40 percent of first-year wages of economically disadvantaged persons. The credit is limited to $6,000 per employee.

Congress likely will renew the health-insurance deduction in 1995 and make it retroactive to Jan. 1, says Thomas P. Ochsenschlager, a partner in the Grant Thornton accounting firm in Washington, D.C.

Prospects for the jobs credit, however, are not as good, according to Steve Kunkel, a partner with Duitch, Poteshman, Franklin & Co., an accounting firm in Los Angeles. There's a feeling in Congress that the jobs credit has been ineffective in stimulating employment of the disadvantaged, Kunkel says.

—Joan C. Szabo

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Managing Your Small Business

Safeguarding valuable documents; attracting good job candidates; building bridges to China.

By Roberta Maynard



PHOTO: HAROLD ADLER

Commercial printers *Frederica and Robert Yates, co-presidents of C.S. Young, Inc., in New York, show documents that contain security features to prevent illicit copying.*

SECURITY

Protecting Negotiables From High-Tech Thieves

The desktop-publishing tools and sophisticated printers being used increasingly in business are also proving useful to thieves for duplicating companies' checks and other negotiable instruments.

Fraud-fighters are scrambling to keep a step ahead of thieves who these days use hand-held scanners to make digitized images of documents and then easily manipulate those images.

"Check fraud is literally now a scourge," says Bruce Brett, senior vice president of Signet Bank, based in Richmond, Va. He heads an American Bankers Association task force working to combat high-tech check fraud. "Desktop publishing and laser printers have made checks one of the simplest forms of counterfeit available today," he says.

One way to protect negotiable instruments is to have them made with extra-cost security features that render documents difficult to copy, such as ultraviolet ink, foil stamping, artificial watermarks, and the use of the "void pantograph" process, which causes the word "void" to appear immediately on any photocopy of a treated document.

Some banks are experimenting with a special coated paper that changes color when scratched, and others are using a greaseless ink on checks to capture a thumbprint when it's requested of a noncustomer who presents a check.

"The more safety features you use, the harder it is to duplicate," says Frederica S. Yates, co-president of C.S. Young, Inc., a New York City printing company that manufactures payroll and accounts-payable checks, promissory notes, and other negotiable documents.

Bruce Brett offers these security tips:

- Keep all check stock or cash equivalents in a secure and locked facility. Look at the end of your current supply—checks are likely to be taken from there so the loss won't soon be discovered.
- Purchase check stock from well-established vendors.
- Make sure at least two people are responsible for the accounts payable.
- Change storage-area keys or entry codes periodically.
- Enforce mandatory vacation policies, particularly for employees with financial access. (This prevents having only one individual handling the books.)
- Review bank statements diligently. Faithfully reconcile check disbursements and deposits.
- Move funds electronically as much as possible. Encourage employees to authorize direct deposit of payroll checks.
- Ask your bank about services such as positive pay, in which the bank electronically matches checks against a list of issued checks you provide; expedited return information, in which bad checks are sent back to the company within 24 hours; and signature-verification systems, for checks over a certain amount.
- Talk with business owners near you. Thieves often run scams on several companies in one area before moving on. ■

HIRING

Pushing Hot Buttons In Ads Yields Better Candidates

If your advertisements for job applicants don't bring in the candidates you are looking for, you might try putting a different spin on the ads.

A typical recruitment ad contains a job title, a list of job specifications and requirements, response information, and perhaps a company logo. But by being creative, says advertising executive Michael Bruce, you can identify intangibles about the job or work environment that not only target qualified applicants but also motivate them to apply for the opening.

To achieve "a better fit for both the candidate and the company," an employment ad can tout such features as the firm's management style, corporate culture, and environment, says Bruce, president of McFrank & Williams, a national recruitment advertising agency in New York City.

Bruce cites as an example an ad that drew responses from 30 people, one of whom was hired; it began: "Can you function effectively in a strongly directed, highly structured environment?" The ad then described the "high-pressure position as a premier challenge for a well-organized, detail-oriented person."

By truthfully depicting the work situation, says Bruce, the ad weeded out those technically qualified but not temperamentally suited to the job. This method of advertising results in fewer, but better, job candidates, Bruce has found.

"Recruitment ads should be thought of as a selling tool—a place to push the hot buttons of those applicants and appeal to their needs and sensitivities," says Bruce. "Devoting thought and creative energy to your recruitment advertising will pay dividends in the form of reduced cost per hire, lower turnover, increased key-employee retention, and higher morale and productivity." ■

Smart Solutions℠

NUMBER 19–PARCEL POST



Person has mail order business.



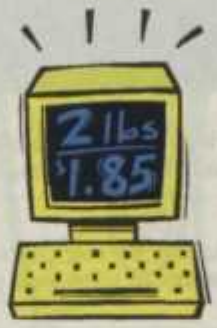
Is shocked by high shipping costs.



Goes to Post Office instead.

PARCEL POST

Finds out Parcel Post is a very smart solution.



Doesn't cost much.*



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Now he can sell fruit without getting squeezed.

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UNITED STATES POSTAL SERVICE

SC95

Circle No. 6 on Reader Service Card

INTERNATIONAL SALES

Reducing The Risk Of Doing Business In China

How can a small firm get a safe foothold in a risky market like China? One way to do it is by piggybacking with larger companies doing business there.

That was the strategy that worked for Yamas Controls Inc., in Broderick, Calif. Yamas first ventured into China in 1990 when another U.S. company asked the firm to develop an environmental-control system (temperature, humidity, lighting, etc.) for use in that country. It was the beginning of many successful partnerships for Yamas, including a 15-year joint venture with the Chinese government to provide such systems.

In 1991, Yamas teamed up with Bechtel Group, Inc., the giant San Francisco-based construction and engineering company, for another project in China. The arrangement was ideal for Yamas because it meant sharing the risk with a much larger company and getting paid by that company in U.S. dollars.

Now Yamas, whose annual revenues have grown from $4 million in 1986 to $40 million this year, is working on projects in China with several American, European, and Chinese firms. China, which accounts for 20 percent of the company's revenues, is its only overseas market. The firm has seven offices there and one in Hong Kong.

Yamas' chief executive, Michael Coffin, a veteran deal maker in China, offers these tips for doing business, particularly joint ventures, in China:

■ Because of difficulties and risks associated with currency conversion, calculate the amount you want to receive in U.S. dollars. Accept no more local currency than necessary to meet local payroll and expenses.

■ To the extent possible, make sure your contract prohibits your partner from working with your competitors.

■ Make sure your agreement gives you windows of opportunity to get out of the venture if you choose to.

■ The best approach in negotiating with the Chinese—who are adept at it—is to start with reasonable terms and not back down on substantive issues.

■ When you are negotiating with the Chinese, have a deadline in mind, and let them know how long you will meet and what you want to accomplish. The Chinese like to accomplish something at every meeting.

■ Make sure that the contract specifies what can and can't be done. For example, if you have a patented process that can't legally be duplicated, make that clear in the agreement.

■ Be inquisitive, concerned, and friendly. In China, the more professional you are, says Coffin, the better you will be received.



PHOTO: GEORGE OLSON

Chief executive *Michael Coffin of Yamas Controls, in Northern California, has had business success in China.*

CREDITORS' RIGHTS

Reclaiming Your Goods When A Customer Goes Under

Few discoveries are more disconcerting to a vendor than learning that a customer is insolvent, especially when the customer is carrying a large credit balance.

But a supplier who acts quickly may be able to recover unused inventory, says Michael C. Runde, an attorney with the Milwaukee law firm of Davis & Kuelthau. He heads the firm's division that specializes in bankruptcy, insolvency, and creditors' rights.

Under the Uniform Commercial Code—adopted with some variations by all states except Louisiana—when a vendor discovers that a purchaser received goods on credit while insolvent, those goods may be reclaimed.

But the vendor must move quickly: The demand for the return, which should be in writing, must be made within 10 days of the customer's receipt of the goods.

(The deadline does not apply if the purchaser has misrepresented his or her financial status in writing within three months before delivery.)

"It is important to act before the customer actually files bankruptcy," says Runde, because the court's involvement makes it harder to reclaim goods.

As a practical matter, it may be difficult to learn about a customer's insolvency within the 10-day reclamation window. A vendor's best bet is to keep careful track of customers' payments.

"Vendors who extend credit should implement a regular program of monitoring high-volume customers," says Runde. "Sudden changes in payment patterns—such as late payments or partial payments—are warning signs and should be investigated."

Runde adds: "If creditworthiness becomes uncertain, limit credit or ask for cash up front." This way, reclamation of goods would be necessary only as a last resort.

Seeking legal advice on reclamation problems may be the smartest course for small firms.

TOURISM

The Consumer Market That Visits From Overseas

When planning your marketing strategies, don't overlook a major segment of consumers—the millions of tourists from other countries who visit the United States each year.

In 1993, according to a government survey, 19 million people from overseas spent $60.2 billion in the United States during stays that averaged 17.4 nights. (The survey did not include the 28 million people from Canada, Mexico, and the Caribbean who visited the U.S. last year.)

The in-flight survey of 47,427 tourists from overseas, conducted by the U.S. Travel and Tourism Administration, shows that their leisure activities in the U.S. included shopping (done by 82.9 percent), dining (69.1 percent), sightseeing in cities (64.7), water sports and sunbathing (34.1), amusement and theme parks (29.2), and visiting national parks (27.1).

The most popular U.S. city destinations for overseas visitors last year, in descending order, were New York, Los Angeles, Miami, Orlando, San Francisco, Las Vegas, and Washington, D.C.

Visitors from the Middle East stayed the longest, averaging 35.1 nights. Visits by Japanese were the shortest, an average of 10.4 nights.

NB TIP

Demographic Facts

Information on subjects ranging from crime and education to income and vital statistics is contained in the 12th edition of the Census Bureau's *County and City Data Book*. It answers such questions as "Where do the highest percentage of Americans live alone?" and "Which U.S. counties have the most and fewest people per square mile?" To order, send your request and $40 to the Superintendent of Documents, P.O. Box 371954, Pittsburgh, Pa. 15250-7954. Include the stock number, 003-024-08753-7.

Smart Solutions℠

NUMBER 17–AD MAIL



Person opens business.



Doesn't have any customers.



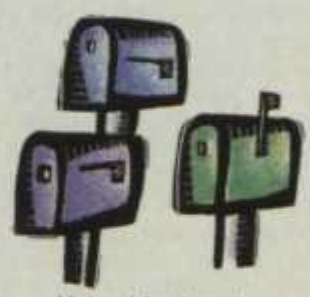
Doesn't know what to do.



Goes to Post Office.



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SA05

UNITED STATES POSTAL SERVICE

Circle No. 6 on Reader Service Card

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Gonna Be A Wheel Someday

By Michael Barrier

He was born in China, but when Bernard Anthony "Barney" Li was growing up in Bethesda, Md., he dreamed some thoroughly American dreams. "I loved cars," he says. "I grew up reading *Hot Rod* and looking at [pictures of] these cars in California and dreaming about them. So now I get to realize my dreams."

Li owns a Porsche, a BMW, and a stunningly sleek 1974 de Tomaso Pantera—"restored and semi-customized," he says. The cars are more than the indulgences of a successful businessman, though, because Li uses all of them in his company's advertising and promotions. He has transformed his childhood obsession into a successful business, Eagle One Industries of Carlsbad, Calif.

Eagle One is a leader in what is known as "car detailing." It makes products—wheel cleaners, waxes, spot removers—that car enthusiasts use to polish their treasures to gleaming perfection.

Li, 48, came to the United States with his parents in 1947. While they were attending graduate school in New York, China fell to the Communists, "so they found themselves cut off from family funds," Li says, "and having to start life over again." His parents "always wanted me to be an engineer or a doctor," Li says, but he wound up graduating from the University of Maryland with a history degree, and in 1969 he moved to Southern California.

After a couple of municipal government jobs and a venture into business as a motorcycle dealer, "I decided," Li says, "that if you've got to devote your life to work, you've got to do something you love." To get at least a foothold in the automotive world, Li went to work at a friend's store, selling wheels and tires. There, Li recalls, he began "trying to figure out how to make a product that would clean wire wheels."

In the late '70s, he explains, wire wheels were an aftermarket product—that is, car enthusiasts bought them after they had bought their cars. "They were beautiful when you bought them, and two weeks later they were ugly and dirty and impossible to clean."

Alkali-based products left a dulling film on the chrome; acid-based products were thought to be potentially dangerous to the chrome's finish. Then it dawned on Li that the solution might be to apply both kinds of cleaners, but with the acid first, followed by the alkali, which would neutralize any remaining acid.

"I'll never forget it," Li says. "I sprayed the first [acid-based cleaner] on, hosed it off, and it came pretty clean. Then I sprayed the second, alkali cleaner on, hosed it off, and that wheel was cleaner than new. The combination didn't just neutralize the acid—it worked better."

Li began making money as soon as his

Bernard Li *loves classy cars—and he has built a business whose products help autos look their best.*



PHOTO: ROBERT BURNSIDE



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Circle No. 30 on Reader Service Card

wire-wheel cleaning kit went on the market—sales the first month were $15,000—and as Eagle One grew, he says, "we built alliances with the wheel companies, because we proved to them that we understood their business, and their needs." Now, Eagle One's products are endorsed by "upwards of 20 of the leading wheel manufacturers in the world," he says. The wheel companies have adopted Eagle One's coding system for wheels, which tells the wheel's owner what kind of Eagle One cleaner should be used.

In the 16 years since he started Eagle One, Li says, "we've evolved from the wire-wheel cleaner to a whole line of wheel-cleaning products into a full range of premium waxes, cleaners, and polishes."

Eagle One now goes head to head with much larger and older companies, some with revenues in the hundreds of millions of dollars. The company's annual revenues are more than $10 million.

Despite the loyalty customers feel to Eagle One's products, Li says, expansion of the line hasn't gone altogether smoothly, "because the same loyalty people have to our wheel cleaners, they already have to another wax."

But even though competition has grown more demanding, Li says, "you also have more resources, so it kind of balances itself out. And it's really more fun to play a more sophisticated game."

Eagle One has attracted suitors, but Li says he is really not interested in selling now, because he thinks most potential buyers don't have the reputation for quality that he would find tempting.

On the other hand, Li admits, competitors' indifference to quality can have its advantages. "If everybody was as concerned about quality as I am," he says, "I wouldn't have a place in the market."

Making The Right Moves

By Dan Hager

When brothers Brig and Jon Sorber decided to make money in high school by moving household goods in their pickup, their mother, Mary Ellen Sheets, lent a hand. She named the venture Two Men and a Truck, designed a cute logo, and placed an ad in an East Lansing, Mich., weekly.

Then Brig and Jon went to college 400 miles away, but their mother's phone kept ringing with calls from people seeking a mover. She decided to make the business permanent, so in April 1985, she bought a $350 truck and hired two men. But she was hardly prepared for what followed.

"I was so naive," she says. "I didn't know how to manage people. I didn't know how to manage a business. I knew nothing about bookkeeping." And the regulatory maze was awesome. "I had no idea!"

But she adapted, learned, survived, and thrived. Today, Two Men and a Truck/International, Inc., based in Lansing, is a franchisor of 38 local moving businesses in 16 states. And Sheets wants to expand into Canada and Mexico. Revenues in 1993 were $6.7 million, nearly double the 1992 total. This year, revenues are expected to top $10 million, and the company is shooting to reach a total of 50 franchises by early 1995.

Sheets was once almost cripplingly shy. But, as a single mother, she joined the work force and put her two sons and one daughter through college. For 20 years, Sheets worked as a computer programmer and analyst with the state of Michigan. She initially operated her trucking business during evenings, weekends, lunch hours, and coffee breaks.



PHOTO: STEPHANIE GERMANIA

Moving-company founder *Mary Ellen Sheets, of Lansing, Mich., gets a lift from two employees.*

Along the way, she made some mistakes and ran into some obstacles. Two men she hired got drunk, fought, and missed assignments. She found bureaucrats to be as confused as she was when she tried to find out what government rules she should follow. She discovered too late that Michigan law requires a company that handles a move greater than eight miles to be licensed.

Her trucks drew the attention of the state police's Motor Carrier Division, and on the day she quit her state job in January 1989 to run the business full time, a state trooper appeared at her front door. It took a year, but with the help of an attorney she was able to pay a fine and resolve her legal problems.

Another attorney helped her make the leap into franchising. "I gave him a lot of money," she says. "It takes lots of documentation to franchise." At first, she sold franchises through contacts at trade shows; now she has two full-time salespeople for the task.

Looking back, Sheets feels the early trials she went through are now valuable for her employees and her franchisees. "I learned by my mistakes," she says. "It was a blessing in disguise that I knew so little because that helps me train others."

Sheets instills in her franchisees and workers her own business philosophy: "My job is not to make a lot of money myself, and it's not to make my employees happy. It's to build a strong business and keep the customers happy, and then the rest follows."

Unlike her first disastrous attempt at hiring, she now selects employees carefully, she says. "They have to be 'people' people. It's difficult for customers, emotionally, when they're moving, so employees have to be compassionate." She is proud that some of her employees have become franchisees.

Early this year, friends persuaded Sheets to set up a campaign office to prepare a bid for the Michigan Senate. "I'm super glad I did it, but I was torn back and forth between the need for another business voice in the legislature and running my own business," she says. But the tug of running the business won out, and she decided not to run.

Now, daughter Melanie Bergeron and sons Brig and Jon are taking more-active roles in managing the company and are enthusiastic about taking Two Men and a Truck into a prosperous future with their mother. Bergeron is now president, and Sheets is chief executive officer. "I really look forward to coming to work," Sheets says, "because now my kids are there."

Dan Hager is a free-lance writer in Lansing, Mich.

A Picture For Health

By Dorothy Elizabeth Brooks

Joey Fischer was struck by the drab, windowless environment his father had to endure 17 years ago in an intensive-care unit after a heart attack. That's when Fischer, at the time a photographer for rock 'n' roll album covers, decided he could do something more with his work.

Today, his unique forms of nature photography can be seen on the walls and ceilings of medical facilities and businesses all over the world. Fischer's Atlanta-based Art Research Institute Ltd. (ARI) creates an array of visual images designed to ease anxiety, decrease stress, and promote healing. The work includes murals, transparencies, and ceramic tiles—all depicting vibrant, colorful scenes from nature captured by Fischer's camera.

ARI is "a company of ideas," Fischer says, explaining that he licenses other firms to manufacture his designs. The offerings emanate from what Fischer calls "visual therapy"—the notion that "there are certain types of images that work psychologically, physiologically, and emotionally on us" to contribute to the healing process.

Starting cold in 1977 with no capital, Fischer won a $300,000 contract to display his nature photography throughout Daniel Freeman Hospital in Inglewood, Calif., after being recommended by another designer who was doing work there.

That first job quickly led to other projects, and Fischer estimates his work now appears in about 1,500 hospitals.

ARI has also been a contractor for the federal government, which for more than 15 years has placed Fischer's work in a number of embassies, post offices, and military health-care facilities.

ARI has just two employees: Fischer and his wife, Janet, a hospital interior designer he met in 1987 when she hired him to provide photographic displays for the Veterans Administration hospital in Pittsburgh.

"Every suggestion or idea that I had, he related to," says Janet, 44. "I thought, wow, what a great team!" Within a year, the two were partners in marriage as well as business.

"We meshed our fields," says Joey, 53. "When we go into a facility, we are able to walk it, make all the recommendations for what goes where: the size of the print, the image, or whether it is a ceiling transparency or a 'window.'" By "window," Joey means an outdoor scene in a window-like fixture backed by a computer-driven light box that simulates nature, even using fiber optics to put stars in a night sky.



PHOTO: T. MICHAEL MEZA

Nature photography *by Joey and Janet Fischer makes radiology procedures more pleasant for patients.*

"This window goes through the whole cycle of night and day," says Joey, adding that it makes patients cognizant of the passage of time, which some researchers suggest aids in healing. The electronic window's $8,000 tab, however, has narrowed its marketability.

Fischer's other products, ranging from $100 to $800, have proven more popular. While the prints and tiles can be used just about anywhere, the transparencies—huge slides that are back-lighted—are typically placed above diagnostic or therapeutic equipment that requires patients to recline, or in basement settings where there are no windows.

Impressed with ARI's products is Dr. Jay Cooper, director of the Division of Radiation Oncology at New York University Medical Center, who says they contribute to emotional healing. "By opening up the illusion of sky and trees and life, it is extremely relaxing" to patients, says Cooper. He has had transparencies installed over therapy equipment in his underground facility.

While many of ARI's clients stop short of citing clinical benefits from Fischer's photography, they are nonetheless enthusiastic. Jim Bietendorf, manager of the Nuclear Medicine Department at Cedars-Sinai Medical Center in Los Angeles, had transparencies installed over scanners and in front of treadmill machines when his department was remodeled last year. "Rather than staring at a blank ceiling or wall, the patients can now stare at these real nice floral arrangements," Bietendorf says. "It makes for a more pleasing environment. That is the bottom line."

The Fischers operate out of their home but remark that they have lived on airplanes for the past three years, tending to clients in Israel, England, Germany, and other countries, as well as in the U.S. Such activity produces $800,000 in revenue in a good year, Joey says.

New items are on the way. One is an updated electronic window that will depict the phases of the moon; another is an interactive product involving a series of nature stills on a compact disk. Expected to be in stores by spring is a consumer line of ceramic tiles, with pictures from nature baked onto them. These not only will be used as architectural building materials but will also be made into gift items such as trivets, trays, flower boxes, and wall art.

With the increased competition for the health-care dollar, Joey sees hospitals scrambling to find new and better ways to attract and satisfy patients. This, he believes, will focus more attention on interior design and his form of art.

"Why have an environment that you know is provoking stress and impeding the healing process?" he asks. "You can do things to mitigate those conditions, to soften the edges, and create environments that are simply user-friendly." NB

Dorothy Elizabeth Brooks is a free-lance writer in Marietta, Ga.

Bill Borders. President Las Vegas Auto Parts Las Vegas. Nevada.



"IT'S MORE THAN
IT'S MY SILENT PA

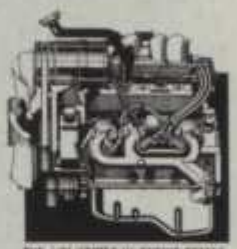


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COVER STORY

New Mission

By John S. DeMott



PHOTO: BRAD DOHERTY

In a former hangar *at Chase Field Naval Air Station, in central Texas, general manager Larry Klein's General Shelters firm builds construction sheds.*

When PolyConversions Inc. of Champaign, Ill., needed room to expand, it found a new landlord that not only provided a building at less than half the rent the company had been paying but also lent the firm $150,000 at a low interest rate to finance the relocation.

Owners William, Ronald, and Robert Smith and their 35 employees now report to work at the company's headquarters in a former warehouse on what used to be Chanute Air Force Base.

The firm's new landlord is the town of Rantoul, whose officials are busily recruiting tenants to occupy former Air Force buildings—to the point of hiring a Chicago public-relations firm, Aaron D. Cushman and Associates, to spread the word about Chanute's advantages.

The base closure a year ago, Rantoul officials say, eliminated 4,535 civilian and military jobs and cut off economic activity with an annual estimated regional impact of $341 million—a big item in any economy, let alone one like Rantoul's, which is largely farm-based. Rantoul set out to generate replacement jobs by turning the base's deserted facilities into a center of commercial activity.

Similarly, Beeville County in central Texas suffered an economic blow two years ago when the Navy shut down Chase Field Naval Air Station, whose presence accounted for 30 percent of the region's economic activity. Like Rantoul, the county embarked on a mission of attracting job-providing businesses to what had been a military installation.

Among Chase Field's tenants now is General Shelters Inc., which makes modular mobile offices and storage units, chiefly for construction sites. The company, with annual sales of $8 million, found that a hangar/warehouse met its needs for a large production area. Its rent was attractively low to begin with and was reduced further to reflect the company's costs of replacing the building's roof. Says Larry Klein, general manager: "It's a really nice deal."

Not only are communities like Rantoul

Defense cuts have dealt a major blow to some of the communities and businesses that prospered from Cold War military spending. Here's how they are working to bounce back.





PHOTO: T. MICHAEL KEZA

At Chanute Air Force Base, *brothers Robert (with tie) and Ronald Smith, owners of PolyConversions, produce disposable hospital gowns.*

and Beeville County working to recover from base closings; many companies have also been sent scrambling for new markets in the aftermath of defense downsizing.

In El Segundo, Calif., Zvi "Harry" Kurtzman, the chief executive of Aura Systems, turned to markets outside the federal government for sales of the magnetic actuating devices he had supplied to the military for use in countering vibration in submarines and spacecraft.

The devices are now sewn into plastic backpacks called Interactors, which are plugged into video-game equipment to give wearers a physical sensation synchronized with the action on the screen. Kurtzman, who started his company as a defense contractor in 1987, expects $100 million in sales this year, nearly all to the nondefense market.

The experiences of Rantoul and Beeville County and of small firms like PolyConversions and Aura Systems reflect the success stories that have emerged from the latest and most significant round of the process known as "defense conversion."

That's Washingtonese for the difficult, often painful, and not always successful process through which communities and enterprises seek to retain or regain economic viability after the loss or curtailment of military spending that had been a big part of their economies.

The cutbacks can range from a $300,000 wire-harness contract that kept a small manufacturing company in business to the multimillion-dollar military-base payroll that sustained scores of local businesses.

Military cutbacks are not new, of course. The United States went through defense contractions after World War II and the Korean and Vietnam wars. Ninety-seven military installations were closed from 1961 to 1988.

This time, however, defense contractors aren't hunkering down in anticipation of the next cycle. "No one expects a rebound," says Erik Pages, an analyst with Business Executives for National Security, a policy-research organization in Washington.

The turning point that broke the retrenchment-rebound cycle came just five years ago when the Berlin Wall came down—the beginning of the end of the Communist threat that had driven U.S. military spending for decades.

Those outlays, in 1994 constant dollars, peaked in 1989 at $346 billion and fell to $267 billion for 1993, a drop of 29 percent. (See the chart on Page 22.) Since 1990, total military personnel have been cut to 1.6 million from 2 million, a 20 percent reduction, with further decreases to come. The loss of civilian jobs on just the bases targeted for closing from 1988 to 1999 is estimated at 93,000.

Pentagon spending for goods and services—not including weapons systems or payroll—plunged to $153 billion in 1994 from $211 billion in 1987. Spending on warplanes, warships, tanks, and other weaponry has fallen 41 percent over the same period.

Even more cuts loom, as the Pentagon confronts an expected $80 billion budget decrease during the next five years. Some analysts believe defense downsizing is far from over, with 30 to 50 percent of its course yet to run.

Making the transition to nondefense markets can be done, however, as Aura

Systems shows, but success does not come easily. Galileo Electro-Optics, Inc., a Sturbridge, Mass., firm that makes parts for Xerox copiers, has shifted from 90 percent military business to 90 percent nonmilitary. William Hanley, Galileo's chief executive, says: "It's difficult. It takes a long time. And it takes intense discipline."

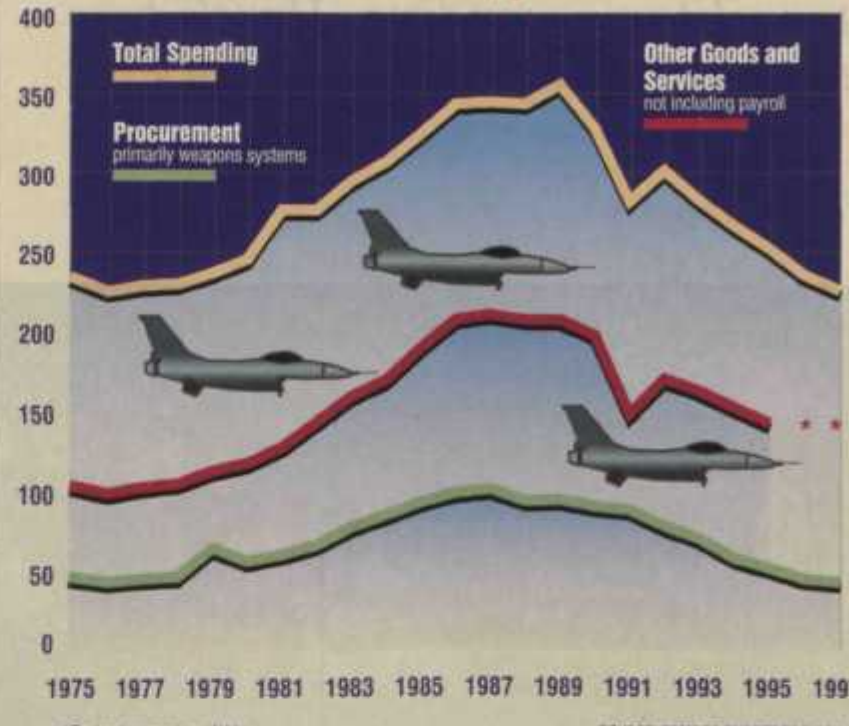
Unlike the era following World War II, there is no pent-up demand for consumer goods to fuel a resurgence of nondefense manufacturing and job growth. While today's economy has been expanding at a moderate rate, it is not buoyant enough to continue absorbing legions of displaced, highly skilled defense workers. Since 1989, about 700,000 people have lost their jobs in U.S. defense industries—more than half of them in California, Connecticut, and Florida.

That would make the defense-conversion challenge even more formidable than it is now, when problems abound along with successes. For every Aura Systems that eliminates or reduces its dependence on defense work, other small companies fail to survive the loss of military contracts.

But companies and communities will continue striving to be among the survivors. Those that have endured can provide lessons to those yet to cope with defense conversion.

Defense Spending Declines

Outlays from 1975 through 1994, and projections for 1995 through 1997, in 1994 constant dollars; figures are in billions.



SOURCE: DEFENSE BUDGET PROJECT

Lessons From Chanute

The history of Chanute Air Force Base spans most of the air age. Named for 19th century aviation pioneer Octave Chanute, its first mission was training pilots for the nation's fledgling combat air service in World War I. Charles A. Lindbergh took written exams there, and it was a major training facility for meteorologists, firefighters, and other technical personnel in World War II. During the Cold War, Minuteman missile technicians learned their trade there, and Astronaut Virgil "Gus" Grissom went through Chanute's school for aircraft-maintenance officers.

But the Rantoul, Ill., installation closed 14 months ago, and its facilities are now home to 20 businesses, with a constant effort to attract more. The base is a leading example of a how a community can ease the economic impact of the loss of a military installation.

Chanute's 3,500 military personnel and 1,035 civilian employees accounted for $341 million a year spent in the regional economy. Although Chanute's closing in 1993, announced in 1988, came as little surprise, coping with the actual loss of an economic mainstay was difficult. Many lessons had to be learned through tough experience.

Now, says Mayor Katy Podagrosi, "we're a model" for any community facing defense conversion. In light of what Rantoul has learned, the mayor and others offer these suggestions:

Organize immediately. Pull together business people, local officials, planners, and bankers who can speak for the installation. Rantoul had incorporated Chanute into its boundaries in the 1950s, so there was no squabbling over who had authority to do what. The town got word of Chanute's closing on a Thursday; by Saturday, local leaders were meeting in Mayor Podagrosi's office.

Assess what the military would leave behind. In Chanute, Rantoul got what in some ways looks like a well-maintained college campus, with even a few 1980s buildings. Other communities are not so fortunate. Says John Lynch of the National Association of Installation Developers: "The truth of the matter is that [the property] is often run-down."

Hire professionals to recruit businesses. Chanute has two: Frank Elliott, a retired Air Force major general who commanded Chanute in the 1970s, and Ray Boudreaux, a retired Air Force lieutenant colonel, now director of Aviation and Reuse Development of Rantoul.

Use available federal resources. They are substantial. For example, Boudreaux's salary is paid by Rantoul, which gets the money from the Pentagon's Office of Economic Adjustment. Rantoul got $1 million to make loans to small businesses from the Economic Development Administration.

Recruit many small firms, not one big one. Depending on one large private tenant is not much different from depending on the military. Says Boudreaux: "I'd rather have 100 small businesses than one big one. If one small business folds, you've still got 99 left."

Keep political lines open. Mayor Podagrosi has been in constant touch with Alan Olsen, director of the Air Force Base Closing Agency, near Washington, D.C., as well as the office of Sen. Paul Simon, D-Ill., to be sure the city gets whatever federal conversion aid is available.

Press for title transfers. Most military land on converted bases has been transferred to local "reuse" authorities like the town of Rantoul, which can then lease it to developers. But actual title transfer can be a long, frequently agonizing process. Get your member of Congress involved, and have your investors bring pressure.

Don't look back. "It doesn't pay to spend your time worrying about what

About 1,800 military and civilian personnel worked at Chase Field Naval Air Station in Texas' Beeville County when the Defense Base Closure and Realignment Commission put the facility on its closing list for 1991. Civic leaders moved swiftly. They formed a 23-member Beeville Redevelopment Council, which set up a two-person office, using conversion-assistance funds from the Department of Defense.

After the Navy pulled out in February 1993, the council began signing up tenants. The South Texas Prison System took over the barracks and set up a fenced-in boot camp for young offenders. And a half-dozen small businesses began moving onto the base.

Along with General Shelters, tenants include Get Jets Inc., which trains aviators; Texas Panel Systems, a furniture maker; Prostar Inc., a maker of crop-dusting airplanes; and Proco Industrial Equipment Inc., which manufactures pressure vessels for the oil and gas industry.

Beeville now has a housing shortage because of an influx of workers, says Brad Arvin, who heads the redevelopment council. "There's not an apartment you can find for rent anywhere in town, and sales tax revenues are up 20 percent over when the Navy was here," he says. "It has been a phenomenally quick turnaround."

The Beeville County experience offers no guarantees that such efforts will proceed quickly at other closed bases, however. Bob Paulson, now a director of the McKinsey & Co. management consulting firm in Los Angeles, recalls that when he worked in the Defense Department in 1969, several closings were planned, but some didn't occur until 19 years later.

In rural areas where a base has high economic impact, Paulson says, "they often can get the political will together to get industry in," but in urban areas, "they can't get the civic commitment, and they can't seem to re-employ people."

Three rounds of base closings since 1988, under three Defense Base Closure and Realignment Commissions, have targeted 67 sites for closing. (See the list on Page 25.) Of those, 16 have shut down, and the rest are scheduled to close by 1999.

Hearings by a fourth base-closing commission next year could lead to recommendations for an additional 70 closings, which would be the largest number so far.

The commissions were established by Congress to shield the lawmakers from the political repercussions of base closings in their home areas. Each commission makes the recommendations as a package that Congress must accept or reject without amendments.

For Homestead Air Force Base, in Florida, devastated by Hurricane Andrew in 1992 and targeted by the base-closing commission, community leaders have drafted a contingency reuse plan that includes an industrial park and an air-freight terminal. An Air Force Reserve unit will remain; it participated in the Haiti operation in September.

In South Carolina, the 1,500-acre Charleston Naval Complex—a 100-year-old shipyard and a naval base—is to close by April 1996. With it will go an estimated one-fourth of the area's economic activity—6,052 civilian and 14,542 military jobs in the region of Charleston, Dorchester, and Berkeley counties.

Charleston civic leaders have put together a reuse plan that would privatize the shipyard and convert part of it for the repair of private boats. Other parts would be used as a state shipping dock and as facilities for the homeless.

Says Madeleine McGee, executive director of the Charleston Naval Complex Redevelopment Authority: "We've got half a dozen planned businesses by civilian employees of the shipyard."

Farther up the Atlantic coast, Myrtle Beach Air Force Base, which closed in March 1993, is the site for an expansion by AVX, which makes capacitors for the worldwide telecommunications industry.

Early in 1994, in one of the few

might have been," says Mayor Podagrosi. "What you have to deal with is what we have today, and what we have today is real opportunity."

Of the 1,035 civilian jobs lost on the base itself, 917 have been replaced by the businesses that have moved onto or expanded on the land. A new Defense Finance and Accounting Center, one of 20 in the United States, will employ an additional 750 people when it opens in the next two years.

Business people who meet informally at BG's, a popular breakfast spot in Rantoul near Interstate 57, say retail sales are up, and so are house sales, as Rantoul benefits from the Midwest's economic recovery, which has been stronger than the recovery in other regions.

In a former base convenience store, Birkey's, a 40-year-old dealership selling farm machinery, Dodge trucks, Buicks, and Chevrolets, has consolidated the offices of seven stores. Owner Gary Hedge pays only $650 a month—70 percent less than he'd pay in downtown Champaign-Urbana—for the business's 4,600 square feet. Says Hedge: "I like it here."

In a former Air Force meteorology school, with a bay-window view of hangars, Jack Phillips and Paul Andersen run Choice Productions, a maker of aviation calendars, brochures, and posters with sales of about $100,000 annually. Their monthly rent for 1,000 square feet is only $300. Says Phillips: "This is the best move we've ever made."

In a former supply warehouse, Rantoul Products, part of Textron's automotive division, has set up a manufacturing operation with 125 employees. The company makes instrument panels, door panels, and quarter trim panels for Chrysler Jeeps, Chrysler Dakota trucks, and Chrysler LeBaron convertibles.



PHOTO: T. MICHAEL KEEZA

Rantoul's *Frank Elliott and Mayor Katy Podagrosi: She finds base conversion "so complicated, it blows your mind."*

At Golfview Village, a development of 706 houses at Chanute that once housed noncommissioned officers, remodeling is under way. At least 34 families have moved in and are paying rents ranging from $350 to $500 for a four-bedroom townhouse; 30 more people have signed occupancy documents. Most of them intend to buy, though they can't do so until title is transferred from the Air Force.

Lawrence Roessler's Rantoul construction company is working on the development and, together with partner Kyle Robeson of Champaign, successfully bid $2 million for the section of Chanute that includes Golfview Village. Roessler says: "This is the best thing we've ever done. This is the best thing that's ever happened to Rantoul."

Roessler and Robeson have spent about $300,000—two-thirds as a down payment to the Air Force for the property and the rest for remodeling and other expenses.

Complaints have been few. A squabble over who would provide natural gas to the base was resolved. And business leaders are still trying to get removed from Chanute's West Gate an old Minuteman I missile, a reminder of bygone days.



PHOTO: T. MICHAEL KEZA

Inspecting a loading-dock *expansion at Chanute is Ray Boudreaux, director of Aviation and Reuse Development: "I'd rather have 100 small businesses than one big one."*

transfers of base land to private individuals or companies so far, AVX paid $575,000 for 67 acres on the base from South Carolina's Santee-Cooper Development Authority, which had acquired it from the Air Force. AVX, a subsidiary of Kyocera, in Japan, is building a 58,800-square-foot, $6 million corporate research laboratory on the site and expects to employ 250 people. Plans for the remaining 3,677 acres call for a theme park.

McGee of the Charleston redevelopment group says that years from now the current closings will result in positive returns to affected communities, although currently the going is tough. "If the government gets its act together and develops efficient procedures, the reuse of bases is going to be one of the most successful economic-development programs to come out of Washington in a long time," she says. "But that's a big 'if.'"

A fundamental problem is that hardly any community leaders are familiar with the procedures for turning abandoned military installations into bustling commercial centers. Says Frank Elliott, a retired Air Force major general who once commanded Chanute and now is assisting in its conversion: "It was something that none of us had any experience in."

Intricate federal environmental regulations that have taken effect since the major shutdowns a generation ago have complicated today's conversion projects. An example: In the past, unused below-ground oil-storage tanks could be left in the ground; now they must be removed, surrounding earth must be burned to rid it of oil, and soil must be replaced.

In addition, the McKinney Homeless Assistance Act of 1987 gives first refusal on use of "surplus" federal land—the former military locations—to agencies representing the homeless. That law has stalled development plans at several installations. "It slows the entire process," says Sandra Christopher, spokeswoman for the National Association of Installation Developers, an Arlington, Va., group that represents investors and communities interested in reusing bases.

One example: Cameron Station, in Alexandria, Va., near Washington, is headquarters for the Defense Logistics Agency, which is scheduled to move next year to nearby Fort Belvoir. But advocates for the homeless have applied for a large part of Cameron Station's space and have stalled Alexandria's plan for reuse.

If the advocates for the homeless are successful, says Larry Grossman, Alexandria's city planner, the city will lose an opportunity to expand its tax base.

At least 25 federal departments and agencies—each with its own rules and deadlines—are involved in the base-closure process, administering the $5 billion allocated for closings from 1990 through 1995. Fifteen federal laws come into play, 10 of them relating to the environment.

Defense Department officials are mulling rule changes that would make the process easier and give communities more control over the closing process and use of the land. In the Senate, Arkansas Democrat David Pryor, author of several bills directed at the base-closing process, and California Democrat Dianne Feinstein have been preparing legislation to ease the impact of the McKinney act on communities' base-reuse plans.

Although the process is marked with hurdles—federal laws, regulations, and deadlines among them—and while it takes time to replace lost jobs, communities are finding that the effort can work.

In Edison, N.J., Raritan Arsenal, targeted for closing 30 years ago, now is home to offices of Macy's, B.F. Goodrich, and the New Jersey education department. Boston's Charlestown Shipyard, marked for closing in 1974, now houses a marina, light industry, and residences.

John Lynch, who co-founded the installation-developers association in 1976, says that 171,200 jobs have been created to replace the 87,600 civilian jobs lost at 97 bases closed since 1961. The 16 installations shut as of June in the latest round of closings had 13,543 civilian employees, and 4,770 replacement jobs have been created thus far, reports Brian O'Connell of the Defense Department's Office of Economic Adjustment, which oversees base closings.

But there can be obstacles to redevelopment. Hamilton Air Force Base, in Novato, near San Francisco in Marin County, was closed officially 20 years ago, but the base became the focus of environmental battles led by then-Marin County Supervisor Barbara Boxer, now a U.S. senator, who did not want the base reused.

The base is now under a jurisdictional hodgepodge of ownership by the Army, Navy, Coast Guard, and the Marin County school district, and plans call for allowing part of the site, which includes wetlands, to "revert to nature." This would be accomplished by not maintaining a diking system, resulting in the flooding of a portion of the airfield.

California, where 18 installations are scheduled for closure, is making the most of a grim situation. In late September, Gov. Pete Wilson signed legislation creating an enterprise zone at the shuttered Sacramento Army Depot, paving the way for Packard Bell to move its computer-manufacturing operations from another plant, in Northridge, which had been damaged in January's earthquake. The zone offers tax relief to tenants.

While some problems may be lessened, no one involved believes that base conversion will ever be easy. Rantoul Mayor Katy Podagrosi, who has been overseeing the Chanute conversion for over half of the decade she has been in office, says the project "is so complicated, it blows your mind." Nevertheless, her community, along with many others facing similar challenges, will continue aggressive efforts to offset the impact of defense cutbacks.

In Medina, Ohio, Cletronics Inc., a maker of electrical transformers, with 28 employees and annual sales of $3 million, has altered the mix of its work during the past 18 months from 90 percent military to 40 percent military, while sales revenue remained about the same. The company networked with customers, with state agencies, with anyone who could open doors to new markets.

The Edison Biotechnology Center lined up Cletronics with a local hospital, for

A Farewell To Arms

Major military installations selected for closing by the Defense Base Closure and Realignment Commissions of 1988, 1991, and 1993; their status or scheduled closing dates; and employment impact.



States where bases have been selected for closing

	Status	Jobs Lost	
		Military	Civilian
ALABAMA			
Naval Station, Mobile	Closed	524	126
ARKANSAS			
Eaker Air Force Base, Gosnell	Closed	2,712	792
ARIZONA			
Williams Air Force Base, Mesa	Closed	1,567	781
CALIFORNIA			
Naval Air Station, Alameda	September '97	10,586	556
Naval Aviation Depot, Alameda	September '96	376	2,672
Marine Corps Air Station, El Toro	September '98	13	9
Naval Station, Hunters Point	September '97	4,132	93
Naval Station, Long Beach*	October '96	8,123	417
Castle Air Force Base, Merced	September '95	5,239	1,164
Fort Ord, Monterey	September '96	13,619	2,835
Moffet Field Naval Air Station, Mountain View*	Closed	3,359	633
Naval Hospital, Oakland	July '96	1,472	809
Army Depot, Sacramento	July '97	334	3,164
Mather Air Force Base, Sacramento	Closed	1,988	1,012
Norton Air Force Base, San Bernardino	Closed	4,520	2,153
Naval Training Center, San Diego	September '97	5,186	402
Presidio of San Francisco*	October '94	2,140	3,150
Treasure Island Naval Station, San Francisco	September '97	637	454
Marine Corps Air Station, Tustin	September '97	3,757	348
Mare Island Naval Shipyard, Vallejo	April '96	1,963	7,567
George Air Force Base, Victorville	Closed	4,852	506
COLORADO			
Lowry Air Force Base, Denver*	Closed	4,052	2,290
FLORIDA			
Homestead Air Force Base*	Closed, but reserves remain	3,865	912
Cecil Field Naval Air Station, Jacksonville	September '99	6,833	995
Naval Training Center, Orlando	September '97	8,727	758
Naval Aviation Depot, Pensacola*	September '95	297	3,107
HAWAII			
Naval Air Station, Barbers Point	May '97	3,534	618
ILLINOIS			
O'Hare Air Reserve Station, Chicago	June '98	5	757
Naval Air Station, Glenview*	July '95	1,833	389
Fort Sheridan, Lake Forest	Closed	1,319	1,681
Chanute Air Force Base, Rantoul*	Closed	3,500	1,035
INDIANA			
Fort Benjamin Harrison, Indianapolis*	July '97	3,641	4,240
Jefferson Proving Ground, Madison	April '95	3	387
Grissom Air Force Base, Peru*	Closed, but reserves remain	2,497	807
KENTUCKY			
Army Depot, Lexington*	April '95	37	1,131
LOUISIANA			
England Air Force Base, Alexandria	Closed	3,042	697
MASSACHUSETTS			
Fort Devens, Ayer	July '96	1,909	1,151
MARYLAND			
Naval Electronic Systems Engineering Center, St. Inigoes*	September '97	33	2,786
MAINE			
Loring Air Force Base, Limestone*	Closed	2,875	1,326
MICHIGAN			
K.I. Sawyer Air Force Base, Marquette	September '95	2,354	788
Wurtsmith Air Force Base, Oscoda	Closed	2,903	705
MISSOURI			
Richards-Gebaur Air Reserve Station, Kansas City*	Closed	199	569
NEW HAMPSHIRE			
Pease Air Force Base, Portsmouth	Closed	2,250	400
NEW YORK			
Naval Station, Brooklyn	Closed	244	544
Plattsburgh Air Force Base	September '95	2,095	352
Naval Station, Staten Island	March '95	1,773	1,001
OHIO			
Gentile Air Force Station Defense Electronics Supply Center, Dayton*	September '97	93	2,804
Rickenbacker Air Guard Base, Franklin County*	Closed	600	1,129
Newark Air Force Base*	September '96	92	1,760
PENNSYLVANIA			
Defense Clothing Factory, Philadelphia	Closed	2	1,235
Philadelphia Naval Hospital	1995	474	126
Philadelphia Naval Shipyard	September '96	89	6,894
Philadelphia Naval Station	September '96	2,151	1,199
RHODE ISLAND			
Construction Battalion Center, Davisville	Closed	8	124
SOUTH CAROLINA			
Charleston Naval Complex*	April '96	14,542	6,052
Myrtle Beach Air Force Base	Closed	3,193	799
TEXAS			
Bergstrom Air Force Base, Austin	Closed	3,840	942
Chase Field Naval Air Station, Beeville	Closed	855	956
Naval Air Station, Dallas	October '94	1,374	268
Carswell Air Force Base, Fort Worth*	Closed	4,659	884
UTAH			
Fort Douglas, Salt Lake City	Closed	174	235
VIRGINIA			
Cameron Station, Alexandria	1995	337	4,355
Vint Hill Farms Station (Army Intelligence), Haymarket	September '97	407	1,472
Naval Aviation Depot, Norfolk	September '97	104	4,295
Harry Diamond Army Research Laboratory, Woodbridge	September '97	None	90
WASHINGTON			
Sand Point Naval Station, Puget Sound	October '95	557	423
GUAM			
Naval Air Station, Agana	April '98	1,936	339
	Totals:	**172,406**	**95,450**

*Retains or will retain a residual military presence

COMPILED BY NATION'S BUSINESS FROM INFORMATION SUPPLIED BY THE U.S. DEPARTMENT OF DEFENSE, THE BASE CLOSURE AND REALIGNMENT COMMISSION, AND BUSINESS EXECUTIVES FOR NATIONAL SECURITY



PHOTO: PATRICIA LANZA

With his Interactor *backpack, Zvi "Harry" Kurtzman of Aura Systems moved from countering vibrations in submarines to feeling vibrations from video games.*

which the firm makes sensors for pacemakers. The Cleveland Advanced Manufacturing Practices Program offered advice on how to enter nonmilitary markets.

Cletronics still does business with defense contractors—Hughes Aircraft in California and Leland Electrosystems in Vandalia, Ohio, which makes generators—but the days of heavy dependence on Pentagon dollars are gone.

Amid Connecticut's battered defense industry, the military buys only 40 percent of Reidville Hydraulics & Mfg. Co.'s output of pumps and motors, compared with nearly 100 percent five years ago, while the company's private-sector sales have grown to 60 percent. Peter Heller, chief executive of the Waterbury-based company, kept his company alive in the late '80s and early '90s, but "I did it all with my own money," he says. "There was no help available."

Heller's first step was to ask several large customers to license him to repair and upgrade hydraulic pumps in existing installations, so a "$1 million piece of machinery wouldn't have to be scrapped because of an obsolete $20,000 pump."

Reidville acquired rights to a low-speed, high-torque hydraulic motor from a Swedish company and began selling it to manufacturers of harvesting, mining, and other off-road equipment. The worst now seems to be over for Reidville Hydraulics. Sales rebounded to $2 million in 1993 after hitting a low of $1.5 million a couple of years ago, but they had been as high as $3 million in the late 1980s.

McKinsey's Paulson says the transition from mostly military to mostly nonmilitary work can be a testing experience. It's easier for small companies that make simpler things like fasteners or motors, with wide applications outside the defense industry, than it is for firms in superspecialized niches. For example, there may be little use outside the military for one company's battlefield nerve-gas-antidote injectors or for another's "defense-unique" products for submarines.

Success so far, says Paulson, has gone where there was a market need and where companies "happened to have defense technology that would help with it."

Aura Systems' Interactor backpacks came about when consultants for the Luxor Hotel in Las Vegas wondered if Aura's actuators, then being used in AuraSound loudspeakers mainly for rock bands, could be attached to seats in the hotel's theater and linked to sound sources to let patrons feel what was happening on the screen.

Kurtzman outfitted the Luxor theater's seats, then began thinking if there might be a cheaper way to offer the same effect to masses of customers. A pillow came to mind first, he says, then came the Interactor vest.

Interactor backpacks went on sale in September at national retail chains, including Toys 'R' Us and Kmart. This year, Kurtzman says, employment should rise to about 200 people, and sales should hit $100 million, with only 4 percent representing sales to the government.

He says he developed a "certain methodology" that reflects government's and private industry's differing approaches to business. Government is interested in technology and its use in military applications, and it is willing to "pay extra" to take "high risks," Kurtzman says. But in the nondefense world, he says, "it's a totally different attitude. You can't sell concepts. You have to have a product. And they don't care what's inside. They care what it does and what it costs."

Like Kurtzman, others have found that marketing a product in the civilian world requires learning a culture far different from the Pentagon's. Greg Frisby of Frisby Airborne Hydraulics, in Freeport, N.Y., has found that one difference is sluggishness of cash flow in civilian markets.

With the Defense Department's "progress payments" to contractors as work is carried out, "you wouldn't have a cash-flow problem" with a military order, Frisby says. Now, although he will have shipped about $1 million of components to Boeing for the new 777 commercial airliner by 1995, he won't get paid until Boeing's customers pay for the first planes that year.

Boeing officials say they will work with any supplier that finds itself in a cash bind. But Frisby says he wasn't aware that Boeing would do that when his company entered 1993 with its largest backlog ever and had to make its first layoffs in its 51-year history.

The scope of the potential impact of defense downsizing on small business is evident in Small Business Administration estimates that 42,000 to 50,000 small businesses are beneficiaries of military contracts of $25,000 or more, and the agency suggests there are probably tens of thousands more with smaller contracts.

Erik Pages, the policy analyst, also foresees "a continued consolidation of U.S. prime contractors. Combined with a significant shrinkage of the subcontractor

Resources

Following are sources of help for communities facing defense-installation closings and companies whose defense contracts are threatened.

■ National Association of Installation Developers, 1725 Duke St., Suite 630, Alexandria, Va. 22314; (703) 836-7973. This organization works with investors and community groups in finding new uses for former military property.

■ Business Executives for National Security, 1615 L Street, N.W., Suite 330, Washington D.C. 20036; (202) 296-2125. This organization tracks all aspects of defense conversion and has done many studies of the impact of conversion on small business.

■ Office of Economic Conversion of the U.S. Department of Commerce, Room 7828, 14th St. and Constitution Ave., Washington, D.C. 20230; 1-800-341-1222. This office supplies information to communities and companies about defense base closings, including how to get grants to assist in the conversion process.

base, the likely result is a small grouping of large defense conglomerates, each tightly linked with largely captive subcontractors."

The consolidation continued in late summer when California's Lockheed, maker of the F-117A Stealth fighter, and Maryland's Martin Marietta, maker of the Titan family of satellite-launching rockets, announced merger plans. Lockheed and Martin Marietta, now the second- and third-largest U.S. defense contractors, respectively, have combined sales of nearly $23 billion.

As that merger was being announced, fallout from the May merger of Northrop and Grumman began to be felt. In September, the Los Angeles-based company said it would cut 8,650 jobs. Nearly half would come from facilities at Bethpage, on New York's Long Island, effectively shutting down what had been Grumman's corporate headquarters.

Such consolidations are likely to put pressure on large defense contractors to compete for smaller and smaller contracts. That could squeeze out small-business bidders in the "defense food chain," says Paulson of McKinsey & Co.

But William Lewandowski, a retired Air Force lieutenant colonel and assistant vice president of the 54-member Aerospace Industries Association, a Washington-based group of major defense and aerospace contractors, thinks far too much is being made of the issue of big contractors grabbing business from smaller companies. "There have been many fears that as the budget goes down that industry is going to take all the subcontracts and keep them in-house," he says. "Small businesses should hold their own in competitions like this. Seventy or 80 percent of what goes into an airplane or a satellite is provided by subcontractors."



PHOTO: ERICK FRIEDMAN—BLACK STAR

The shift *from military to nonmilitary business takes "intense discipline," says William Hanley, head of Galileo Electro-Optics; at right is employee Mark Richards.*

Greg Frisby notes there are advantages to continuing to do at least some business with the military: "Even downsized, [the defense business] is a $200 billion market, and, frankly, the customer pays well."

One reason that defense work is lucrative is that it is often more complex than nondefense work, says Cletronics' chief executive, Dave Sands. A military transformer might require Teflon insulation on wire, but it's hard to stamp ID numbers on Teflon. "The ink tends to not want to stick," he says, so the wires must be heated and embossed by hand-operated machines—at extra cost.

Nonetheless, few small firms would go back to being fully dependent on Uncle Sam. Says Kurtzman: "For the first time in my life, I feel that I have my own destiny in my hands. I am not dependent on anyone."

While not all small businesses that lose defense contracts will be able to switch to civilian work and not all communities that lose big military payrolls will replace all the jobs lost, there will be more successes.

That's because small businesses have that special flexibility and drive to move quickly to reorient products from military to civilian markets, or to turn empty buildings on abandoned military bases into opportunity. NB

To order a reprint of this story, see Page 79.

What To Do When The Contracts Stop

Here are some experts' suggestions on what small businesses with defense-related contracts must do to diversify and shift into new markets:

Stay alert. The bottom can drop out of the defense business almost without warning, as it did for Frisby Airborne Hydraulics, in Freeport, N.Y., in 1986, when it lost $400,000 after Fairchild lost its T46-A trainer program.

Change your mind-set. In the nondefense world, customers will not come to you, as the Pentagon does, with a "request for proposal" to supply a product or a service. You must go after the customer. Adds Bill Hanley, chief executive of Galileo Electro-Optics in Sturbridge, Mass.: "What the real world wants is very high quality at very low cost. That's the hardest lesson that military contractors or subcontractors have to learn."

Move gradually. If you can, stay with a mix of military and civilian business rather than shifting all at once to nondefense work only.

Try to adapt your products to the nondefense market rather than make entirely new ones. Aura Systems, in El Segundo, Calif., discovered new uses for its actuators. Reidville Hydraulics & Mfg. Co., in Waterbury, Conn., found new markets for its pumps. Says Peter Heller, Reidville's chief executive: "All we did was shift from military hardware to commercial hardware, but in a very specific niche."

Rely on only a few friends, in general, or expect to go it alone. When you hear your defense work is to be terminated, first call your bank to cement the relationship during what could be rough times. But don't count on help from banks until you really need it. Heller finally got a loan from a Connecticut bank, but only after his crisis was over. Aura's Kurtzman raised money from friends in the engineering community. Then he went to Wall Street, sold stock, and raised $14 million.

Be realistic. Conversion isn't going to save every job, but it might save some jobs and give your company new vigor. It also will take time—several years, even for small companies.

Do the things you've always done to survive. One Small Business Administration analyst says you have to "be quick and agile, and there ain't no guarantees."



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HEALTH REFORM WATCH

Coverage Deduction May Be Restored

Proponents in Congress hope to reinstate the 25 percent deduction for unincorporated firms' health premiums.

By Roger Thompson

More than 2.7 million small-business owners who already buy health insurance are hoping the new Congress will act quickly to restore the tax deductibility of the cost of coverage. They also want the percentage that can be written off quadrupled.

When the debate over health-care reform began on Capitol Hill early this year, the 25 percent deduction that unincorporated businesses could take for health insurance had expired. But there was widespread support among the lawmakers for increasing it to 100 percent to match the deduction long available to corporations.

In the end, however, small businesses got a tax increase. They lost—at least temporarily—the 25 percent deduction they had through Dec. 31, 1993, and the proposal for 100 percent died when all efforts at major health-care reform were abandoned for this year.

Despite the setback, there is a good chance Congress will restore the deduction retroactively early next year—and even an outside chance the proposal will come up in the lame-duck session later this year.

"Congress spent the entire year grappling with comprehensive health-care reform, trying to fix everything," says Lisa Sprague, manager of employee-benefits policy for the U.S. Chamber of Commerce. "And in the end, they made matters worse by failing to preserve what small businesses already had."

The 25 percent deduction for the self-employed (sole proprietors, partners, and S-corporation managing shareholders) was claimed by about 2.7 million individuals on 1992 tax returns. (See the chart.)

Without reinstatement of the 25 percent deduction, an estimated 295,000 self-employed persons would cancel their health insurance because of increased cost, according to a study done for the National Association for the Self Employed (NASE). The study was based on 1991 health-insurance data.

Because many of the self-employed have dependents, the total number of the newly uninsured could exceed 400,000, the study concluded. It was conducted by Bruce A. Kirchhoff, professor of entrepreneurship at the New Jersey Institute of Technology.

He estimated that eliminating the 25 percent deduction would raise the after-tax cost of health insurance by 16 percent.

"Not only are we not going to have health-care reform, but we are going to end up with increased taxation on the very people for whom health-care reform was supposed to be drafted to help," says Bennie L. Thayer, president of NASE, which represents 350,000 members across the nation.

Meanwhile, bipartisan groups of lawmakers in the House and the Senate mounted an 11th-hour campaign to rescue the 25 percent deduction for 1994. But the effort failed, primarily because members couldn't come up with budget cuts to finance the deduction, estimated by the Senate Finance Committee to cost $500 million a year, based on deductions of about $1.3 billion. Congressional budget rules require that any new expenditure be offset by a tax increase or budget cuts totaling the same amount.

Privately, Capitol Hill staffers also suggest that an unspoken political backlash has set in against the small-business lobby, which was a major force in sinking President Clinton's sweeping health-reform package. Democratic lawmakers miffed over the demise of comprehensive health-care reform may have been in no mood to accommodate small business, according to insiders.

Three members of the House Ways and Means Committee—Fred Grandy, R-Iowa; Bill Brewster, D-Okla.; and Richard E. Neal, D-Mass.—issued a "Dear Colleague" letter on Sept. 22 seeking co-sponsors for a bill to extend the 25 percent deduction through 1994 and to raise it gradually to 100 percent.

"Every major health-care reform proposal has included a permanent extension of the 25 percent deduction and a gradual rising of the deduction," they wrote. "The self-employed cannot afford for this very important deduction to fall victim to politics."

In a letter sent Sept. 28 to every member of Congress, Bruce Josten, the U.S. Chamber's senior vice president for membership policy, said: "In previous instances when the deduction has lapsed, Congress has acted to restore it retroactively. We ask that you do so again."

By early October, however, the House bill had only 158 co-sponsors, and finding

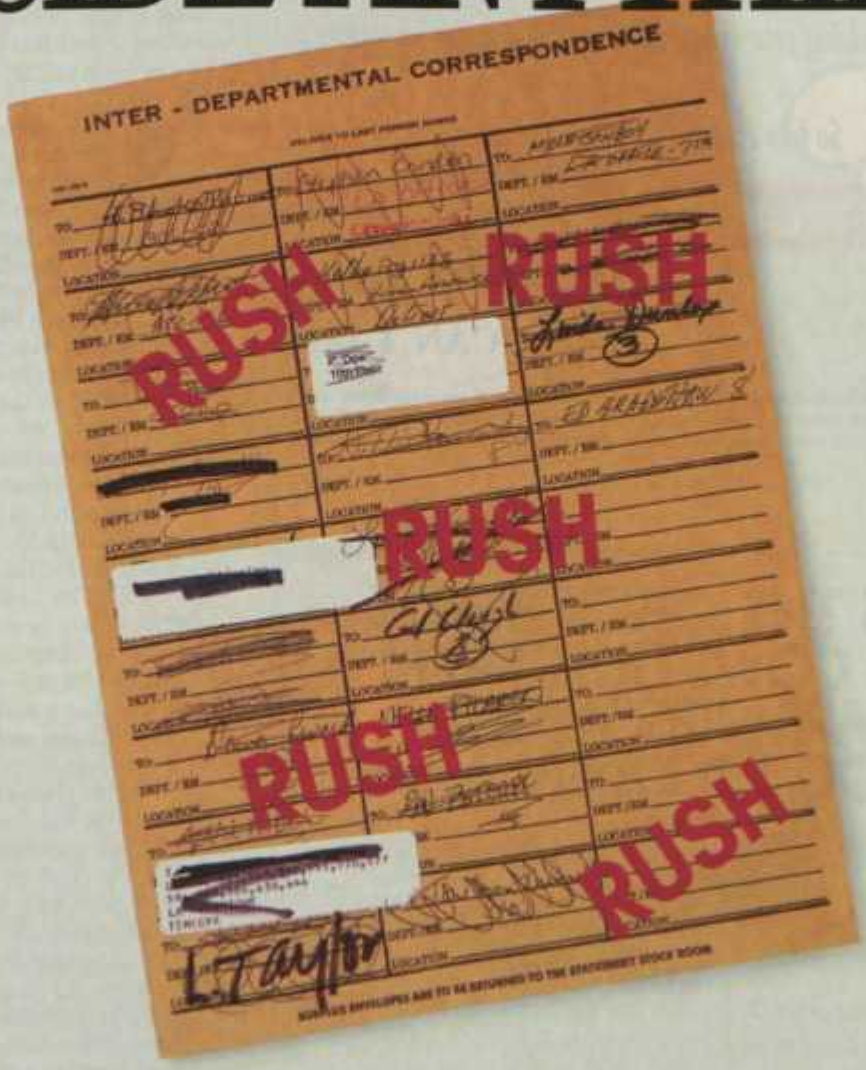
Health Insurance Deduction For The Self-Employed

Individual Returns, 1992 Preliminary Data

Adjusted Gross Income	Total Number Of Tax Returns By Self-Employed	Total Number Claiming Health Insurance Deduction	Total Deduction
$0 to $10,000	2.5 million	324,747	$104 million
$10,000 to $25,000	3 million	735,166	$302 million
$25,000 to $50,000	3.4 million	786,571	$354 million
$50,000 to $75,000	1.6 million	345,181	$150 million
$75,000 to $100,000	626,000	161,370	$ 96 million
$100,000 to $200,000	715,000	255,821	$168 million
More than $200,000	259,000	152,675	$115 million
TOTAL	12.1 million	2,761,531	$1.29 billion

SOURCE: IRS STATISTICS OF INCOME BULLETIN, SPRING 1994; CHART COMPILED BY THE NATIONAL ASSOCIATION FOR THE SELF-EMPLOYED

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a budget item to cut to fund the deduction proved to be a major obstacle. "They need half a billion dollars, but finding a revenue offset at this point in the session is not easy," said Kathleen Black, legislative director for Grandy. "While everybody is supportive of extending the provision, [a budget cut] is a bitter pill to swallow."

Two senior members of the Senate Finance Committee—David L. Boren, D-Okla., and Bob Packwood, R-Ore.—mounted a similar effort Oct. 5 with their own letter to the committee's chairman, Sen. Daniel Patrick Moynihan, D-N.Y. The letter, signed by 60 senators, called for rushing a bill to revive the 25 percent deduction through committee and on to floor action. But Congress adjourned Oct. 8 without acting.

Supporters of the 25 percent deduction vow to renew their fight in January in the newly elected 104th Congress. The first goal is to make the deduction retroactive to 1994. But the long-range objective remains 100 percent deductibility for the self-employed.

Lawmakers in both parties have also promised to return to health-care reform quickly next year. Bipartisan proposals circulating in the House and the Senate most likely will provide a place for the debate to resume.

In the Senate, a group called the Mainstream Coalition continued to refine its plan until Majority Leader George J. Mitchell, D-Maine, pulled the plug on reform. The final version contained several widely accepted insurance-market reforms. They include elimination of exclusions for pre-existing conditions, guaranteed issue and renewability of insurance policies, and guaranteed portability of coverage.

But the plan continued to support ideas that drew widespread opposition from the business community. Among them:

- The ban on self-insurance for all employers with fewer than 100 workers would affect up to 340,000 small firms currently covering an estimated 5 million workers. Forcing these self-insured firms to buy standardized plans would eliminate their ability to tailor plans to company needs and potentially raise their premium costs.
- The requirement that all employers offer, but not pay for, at least two health plans and set up payroll deductions to handle premium payments also would add costly administrative burdens.
- Capping employer tax deductibility for health insurance—an idea opposed by both business and labor. This issue was left unresolved.

One provision of the Mainstream Plan, however, seems certain to arouse little opposition. It calls for giving the self-employed a 100 percent tax deduction for health insurance premiums by 2000.

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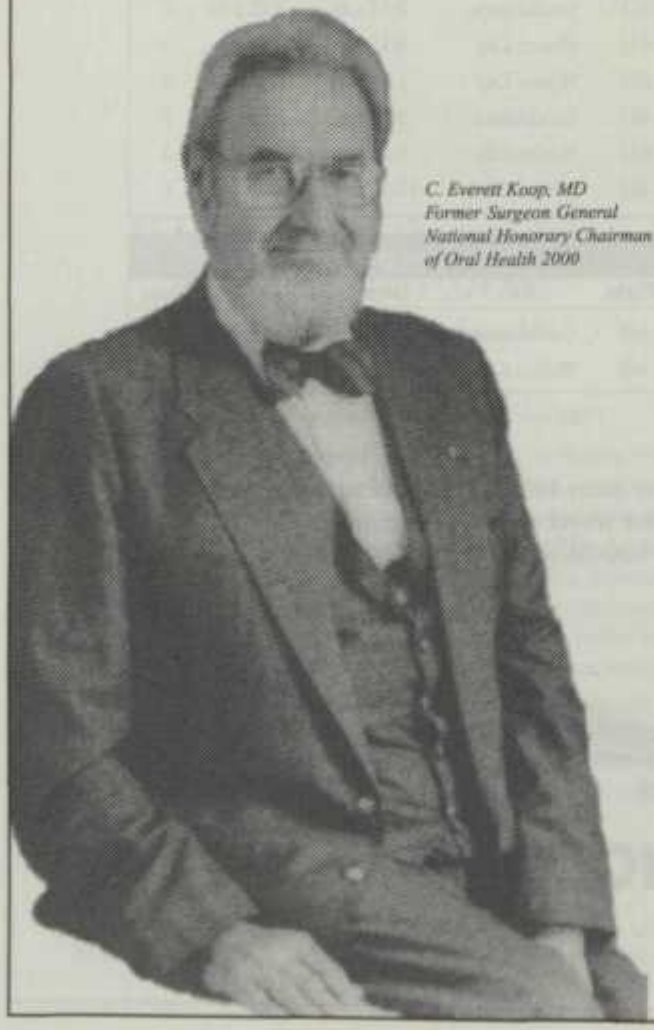
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MANAGING

Hitching Your Wagon To A Retailing Star

Small suppliers are well-suited to helping big chains add variety to their product mixes and cater to diverse tastes.

By Dale D. Buss

Jim Obenshain is living a small manufacturer's dream: inventing a product, having the world's largest retailer pick it up, and seeing his company blossom. Since 1990, when Wal-Mart Stores Inc. began selling the bird feeders made by Obenshain's company, his total sales have risen to $15 million a year from $2 million, and employment has rocketed to 250 from just 20.

"It's made us successful beyond our imagination," says Obenshain, president of Cedar Works Inc., the Peebles, Ohio, company that now makes half of its sales to Wal-Mart.

Turning such sales fantasies into reality may carry long odds for small companies. Moreover, whenever a relationship with a chain is established, the risk of depending on only one or two big customers becomes apparent.

On the other hand, mass discounters and other big retail chains rely on small suppliers to add variety to their product mix and to cater to the growing diversity of preferences among consumers. And sales in the big chains can mean major success for a product.

"The key challenge facing most retailers today is the tremendous sameness," says Carl Steidtmann, director of research for Management Horizons, a consulting unit of the Price Waterhouse accounting firm located in Columbus, Ohio. "Consumers tell us in research that they have a hard time differentiating one store from the next."

Smaller suppliers help big retailers address the sameness problem by developing local and regional market niches that closely reflect consumer tastes. And they tend to be highly responsive and flexible in meeting the chains' demands.

"They understand all parts of their business, so they don't have to go back up through the bureaucracy of some enormous corporation," says Denny Ryan, senior vice president of merchandising for Home Depot, the fast-growing, Atlanta-based chain of home-improvement marts.

At the same time, market forces are compelling small companies to seek product avenues through big retailers. Like it or not, the major chains, fueled by low pricing, marketing clout, and powerful computerized information systems, dominate retailing.

"We felt that we had to sell a Wal-Mart, Kmart, Target, or Walgreen's in order to survive," says Walter Lido, president and co-owner of Convenience Kits International Ltd., in Cedarhurst, N.Y. The company supplies travel kits that include brand-name health and beauty aids. "The number of retailers is shrinking, and any of those [big companies] give you over 1,500 retail outlets at a sweep," he says.

By creating travel kits that sell for budget prices, Lido's eight-employee company managed to secure contracts with several mass merchants, including Wal-Mart and Kmart.

And following a suggestion by his daughter, Lido developed another prod-

Dale D. Buss is a free-lance writer in Cedarburg, Wis.



Sales have increased dramatically *for Jim Obenshain of Cedar Works Inc. since Wal-Mart began selling the bird feeders his company manufactures.*

uct line: baby-shower gifts of travel-size, brand-name, infant-care products packaged in baby bottles. They've also been a hit with big retail customers, helping increase Convenience Kits' sales to several million dollars a year.

Here are some other small-business owners who are supplying big chains:

Reid Goldstein: With a variety of consumer-oriented plastic products ranging from open-and-close motor oil spouts to dry-food containers with easily workable lids, Goldstein, a manufacturer in Tustin, Calif., has secured business with a half-dozen big chains, including Target Stores and Western Auto Parts.

Goldstein's four-year-old business, Flotool International Inc., now has 50 employees and sales of nearly $10 million annually.

Garry Lowenthal: The 36-year-old former accountant, based in Minneapolis, has expanded a business that initially repackaged irregular batches of brand-name shampoo. His company, International Beauty Products, now sells children's shampoos and soaps to Wal-Mart and other chains.

Lowenthal contracts out manufacturing and distribution and handles marketing and merchandising himself. He has eight employees and says he expects sales as high as $7 million this year.

Fannie Watson: The 53-year-old former social worker now supplies 50,000 Christmas gift baskets a year to Kmart through her company, Basket Case Gift Services, in Detroit.

The seasonal arrangement has helped Watson's company grow from $38,000 in sales and three part-time employees in 1988, when she started the business, to almost $500,000 and more than 20 workers last year.

Kevin Foley: The British-born entrepreneur keeps adding major chains, such as CVS and Osco pharmacies and TJ Maxx discounters, to the list of retailers that sell his wide-handle, wide-brush Radius toothbrushes. Foley worked with the product broker that helped market Rembrandt whitening toothpaste. Now his company, Radius Corp., based in Kutztown, Pa., makes several hundred thousand toothbrushes a year and employs 15.

> "If Walgreen's gives me an order for 48,000 toothbrushes, they're going to want it within three weeks."
>
> —Kevin Foley, Radius Corp.

Glen Franklin: The president and owner of Franklin Graphics & Lettering, in St. Louis, got an order from Kmart for T-shirts and sweatshirts bearing college logos. Now, the 40-employee concern supplies 150 Kmarts, and it may soon be shipping to more.

Of course, dealing with big merchants can have drawbacks. One is that it can require long hours meeting short deadlines. For several weeks before Christmas a few years ago, Jim Obenshain spent every other day driving his minivan filled with bird feeders and display materials from Wal-Mart to Wal-Mart throughout central Ohio, trying to keep the shelves stocked.

In Rogers, Ark., Wildwood Industries Inc.'s two dozen employees make macramé and brass plant hangers for Home Depot, Wal-Mart, and other chains, which now account for most of its business. "We work weekends or holidays, or whatever it takes," says Joe Craig, president. "Whatever they ask, we get it done."

Another caveat is that there can be considerable financial risk in meeting a chain's demands—with no commensurate guarantees. While evidence of a large retailer's interest in your product could help you get financing from a bank, chains themselves generally do not grant or lend money to small suppliers.

Reid Goldstein's plastic-products firm has spent about $80,000 on computer equipment and software because the chains require him to be able to receive orders through electronic data interchange and to have inventory information available quickly.

Betting on the day he gets a huge order, Foley, the toothbrush maker, has spent millions of dollars on equipment—currently sitting idle—that would give him five times the manufacturing capacity he now needs. "You have to have lots of flexibility and be very nimble," he says. "If Walgreen's gives me an order for 48,000 toothbrushes, they're going to want it within three weeks."

The bottom-line approach that helps the big chains succeed also means that some other company, big or small, could come along at any time and displace you with a slightly better price or some other small edge. Or, while you've geared up to service a big client, key personnel at the company could change, and you could be left with lots of unsold inventory or even excess manufacturing capacity.

That's what happened to Bob Sherby's company, World Impressions Inc., a seven-employee concern in Tracyton, Wash., that sells thematic travel and sports puzzles to the Target division of Dayton-Hudson Co. and to other chains. In a 10-week test, a big toy chain sold more than 10,000 World Impressions puzzles, the volume of sales that had to be met for Sherby to get more business. But the toy chain switched buyers for puzzles, and the new buyer's minimum sales expectation was higher than what Sherby had met.

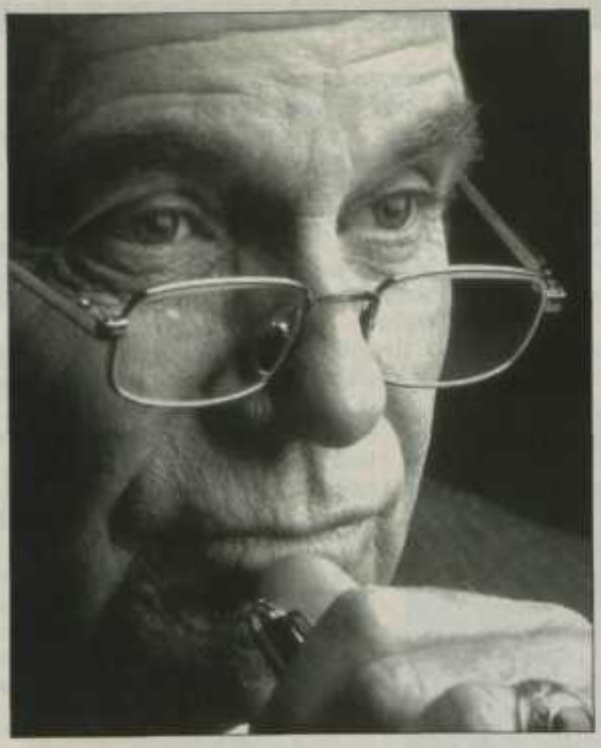
If you've fully assessed such risks and still want to pursue business with a large chain, consider taking the following steps:

■ First, figure out what the retailer you're targeting wants to sell. Thoroughly



PHOTO: T. MICHAEL KEZA

Shampoo packaged *by Garry Lowenthal to tie in with Warner Brothers' Tiny Toon characters is sold at Wal-Mart stores.*



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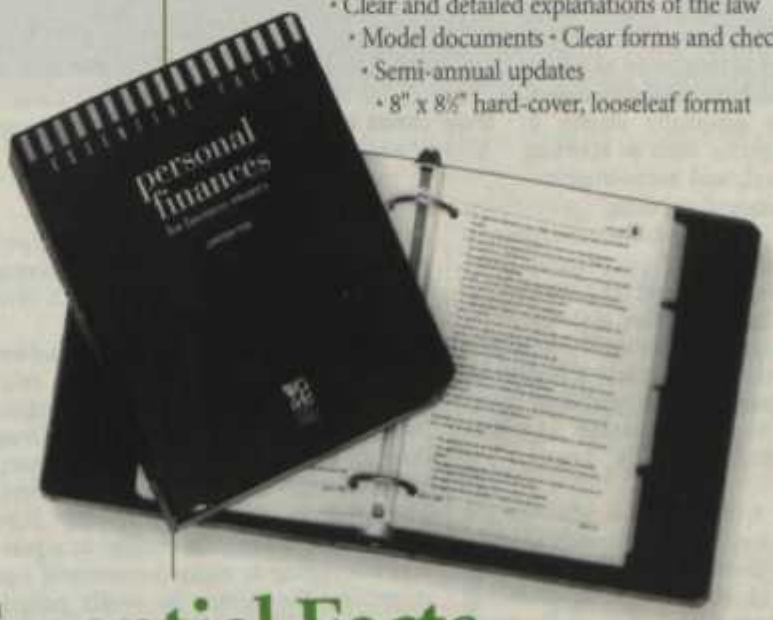
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research the company's current offerings and determine how you can plug the gaps. You don't need—and might not be able to afford—a statistically valid marketing survey. Start out by carefully combing the aisles of your target client and determining its pricing policies, its priority products, its merchandising tactics, and other components of the company's strategy.

■ Conduct "guerrilla" research. Talk to employees, buyers, sales representatives, and others who know the company. Get all the public information you can that might help shape the company's buying decisions. Goldstein, for instance, subscribes to 30 trade magazines.

"Far too frequently, would-be suppliers work backwards," says John Rutherford, minority-supplier liaison for Kmart, in Troy, Mich. "The market study should be done first. Then, the supplier should ask what value he or she can add in meeting market need—not, 'Here is my idea; how can I make the market want it?' "

Walter Lido of Convenience Kits International, for example, looks for "something missing, or a weakness" in mass merchants' lineups, both in terms of product and price. Gathering and using such intelligence got him new business with three chains for baby-care gift kits priced under $4. Each account gets a slightly customized version of the basic concept.

■ Consider regional or local products. That's the way many chains depart from the corporate formula to make themselves more shopper-friendly in each location. Local preferences are especially strong in certain categories such as sporting goods, apparel, and home-improvement products and services.

"Our goal is to fine-tune our stores to the individual market," says Denny Ryan of Home Depot. Depending partly on building codes and styles and the practices of indigenous building contractors, local preferences can vary greatly, he says. The chain has buying offices in six major cities to recruit smaller suppliers who understand those differences.

■ Exploit trends. Think of Disney's ubiquitous Lion King, and you'll quickly realize that licensing of all sorts, from professional sports teams to shoe brands to cartoon characters, is one of the most dynamic areas of merchandising. Savvy, nimble small companies can exploit licensing as easily as big ones.

Garry Lowenthal's most successful product line is made up of children's soap and shampoo inspired by cartoon characters. Embedded in a clear bar of soap or placed in a container of liquid soap or shampoo is a prize—a plastic figurine of an animated creature.

To promote the line, Lowenthal created characters called Rainforest Friends. When he saw similar characters in the 1993 Warner Brothers movie "Once Upon A Forest," however, he got in touch with the studio for licensing rights and changed the characters to match those in the film. "Besides having lots of good characters, it was a plus that 'Once Upon A Forest' also had an environmental theme because that's popular with consumers," Lowenthal says.



PHOTO: ISAAC OMARCO—BLACK STAR

Major chains including *CVS, Osco, and TJ Maxx sell Kevin Foley's Radius toothbrushes.*

By networking with manufacturers' representatives who had long-term relationships with big retailers, Lowenthal got the Forest line into Revco Drug Stores, Phar-Mor pharmacies, Kmart, and Wal-Mart for Christmas shoppers. The products disappeared quickly from the shelves, putting Lowenthal in a position last spring to make a successful run at getting the license he really prized: Tiny Toons, Warner's Saturday morning cartoon series featuring pint-sized versions of Bugs Bunny and other characters. Wal-Mart is now selling the Tiny Toons bath products nationwide.

Another trend is "cause-related marketing," in which merchandise appeals to consumers' affinities for social causes. Linda Brunini already supplied department stores with private-label costume jewelry as co-owner of two companies: International Etching and L.A. Browning. But last year, she developed another company, Two Hands Inc., which designs jewelry based on art produced by disabled, disadvantaged, and seriously ill children.

Brunini's company donates 1 percent of its profits to a school for the disabled in the firm's hometown of Providence, R.I., and refers to its connection to the disabled on the jewelry's packaging. Several major regional department store chains have picked up her line.

"Consumers associate with the cause and the merchandise and then buy them in clumps," Brunini says. Now, Two Hands is expanding to produce bookmarks, which the chains will also sell.

■ Explore private-label manufacturing. House brands are spreading quickly from supermarket shelves to discounters' aisles. In Eau Claire, Wis., Jennico, which produces household-cleaning products, has expanded into a company with three plants and about 200 employees largely by capitalizing on the private-label boom. It sells its products to a dozen chains, including Walgreen's and Topco drug stores and Super Valu and Kroger's supermarkets.

"Consumers now will look at private-label goods when they might not have done so before," says Steve Alf, Jennico's president.

The downside of a private label is that you don't get to develop your own brand name. And you need to protect yourself because "if a chain really does well with your product, they can shop it to someone else and ask them to make it for them—unless it's something proprietary," says Robert McMath, head of the New Product Showcase, an Ithaca, N.Y., information clearinghouse. "Even with that, they can change formulas, and so on."

Once you're sure of what you're going to try to sell mass merchandisers, get your act together before seriously wooing them, or you'll waste their time—and yours.

Planning includes a marketing plan that incorporates your conclusions about where your product fits into that retailer's scheme, a list of your current customers, an explanation of your financing sources—anything that will enhance the chain's perception of your company as an innovative, solid, dependable supplier. Then prepare a written proposal, call the

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company to find out the proper channel for it, and submit it.

You'll want to make sure you have Universal Product Code labeling on your goods, or most chains won't talk with you. Also, have a strong working knowledge of patent, copyright, or licensing issues. Make sure you have a manufactured product sample available. "Kmart doesn't work with inventors," the chain notes.

Results of product tests can be helpful, too, if your product has any health or safety implications. At a recent trade show in Chicago, Garry Lowenthal clinched a deal with a Mexican discount chain by producing a new report from an independent laboratory attesting to the purity of products made by his company. "The testing has paid for itself several times over," he says.

Another must: liability insurance. Reid Goldstein obtained a $6 million policy. The chains "care more about what your company is than the product," he says. "If they commit to a million pieces and give you shelf space, they want to make sure, first, that you're not fly-by-night."

When Kevin Foley first met with Walgreen's, that priority was clear. "I went to a meeting with their buyer, and he had Dun & Bradstreet's [financial report on the firm] in front of him," Foley says. "I wasn't being judged on my product but on how big my company is. He was more concerned with whether I had a big enough insurance policy or what happened if someone got hurt."

Take retail chains' unequivocal advice: Write to them first. It's nearly impossible for cold callers to interest buyers on the telephone.

Exploit other mechanisms that chains have established to make themselves available to potential small suppliers. Most big chains, for example, have programs specifically aimed at cultivating minority-owned suppliers.

At each of its regional offices, Home Depot hosts quarterly "Open to Buy" days, which are set aside for talking with new vendors. The chain advertises these events in trade publications.

Display your wares at trade shows covering your categories of merchandise; every major type of industry has at least one show. The chains themselves help sponsor many of these shows and flood them with buyers and other executives, often including top managers.

"These shows can help you break through the bureaucracy," says Howard Davidowitz, chairman of Davidowitz & Associates, a national retailing consulting firm based in New York. "If you meet a general or merchandise manager at a trade show, these are the people who can be creative. Make contact at a high-enough level that they can do something for you."

If these direct approaches don't work, try flanking maneuvers. One is to contact managers of individual chain outlets, many of whom have some degree of buying autonomy. This approach, combined with ample stealth and grit, got World Impressions its deal with Target.

After pursuing the chain through the prescribed means for a few years, Sherby, the puzzle company owner, was in a Target store where a worker was distributing soft-drink coupons. Redeeming his coupon, he wrote on it: "I would like Target a lot better if they sold my products." Suddenly a stunned Sherby was talking with the store manager, who just happened to have received extra purchasing authority under the chain's "micromanagement" program. The puzzles are now in 50 Target stores.

Chains have an "understanding of manufacturing and efficiencies. They can help you grow your business if you'll listen."
—Glen Franklin, Franklin Graphics & Lettering

Persistence eventually pays off. And the outcome can be a partnership that helps both you and a chain to prosper. If you have a hit, most retailers will help you increase your capabilities gradually, so you can handle the extra business. Then they'll discuss new products with you.

That's what happened to Cedar Works. A few years ago, Jim Obenshain was supplying Wal-Mart with mailboxes made of eastern red cedar, which repels insects. He decided that the company needed to diversify into products that are more complex and carry higher profit margins. Taking note of the rising popularity of bird watching, he sent a prototype of a small bird feeder to a Wal-Mart buyer, Esam Alnasery.

Alnasery took it from there, suggesting that if Cedar Works paired a small bag of bird seed with a low-priced feeder, Wal-Mart could sell the package as a starter kit for under $10. The buyer also suggested another merchandising twist that has been highly successful: an "arbor" display of Cedar Works' line of bird feeders hanging from a lattice-work frame over big bags of bird seed.

Indeed, even with the potentially huge obstacles and frustrations, many small suppliers will tell you that dealing with the chains is the best thing that's ever happened to their company. And it's not just the dramatically increased sales volume. Keeping your company fit enough to supply a Target or Walgreen's can be a reward unto itself because of their demands for quality, creativity, on-time deliveries, and economies of scale.

"These guys know a lot more than just how to send a purchase order," says Glen Franklin of Franklin Graphics & Lettering. "They have a tremendous amount of understanding of manufacturing and efficiencies. They can help you grow your business if you'll listen." NB



PHOTO: ERICK FREEDMAN—BLACK STAR

Several regional retailers *carry jewelry made by Linda Brunini's company, Two Hands. The designs are based on artwork done by children with disabilities.*

To order a reprint of this story, see Page 79.

Turning Dreams into Realities



The "Hitachi Promise of Tomorrow" scholarship program encourages student athletes to take the lessons learned on the football field today and teach children in the classrooms tomorrow.

Encouraging Student Athletes to Become Teachers

During his three years as nose guard on Louisiana State University's football team, John Mawae came to know the thrill of victory and the agony of defeat. But nothing moved him more than working with disabled children in a Special Olympics held at LSU. "Seeing those kids realize their dreams against all odds really got to me," Mawae recalls. "I knew then what I wanted to do: help kids like them realize their dreams."

Mawae will get that chance, thanks in part to the "Hitachi Promise of Tomorrow" scholarship program created by the College Football Association (CFA) and sponsored by Hitachi, Ltd. Started last academic year, the program awards $335,000 in scholarships at the 67 CFA member universities. At each university, a $5,000 scholarship is awarded to an outstanding senior or graduate student who intends to become a teacher and has participated in the school's football program as a player, trainer, or manager. Mawae, a 1992 scholarship recipient, intends to use his grant to pursue a career teaching kids with special needs.

"Teaching plays an important but undervalued role in society," says Charles M. Neinas, the CFA's executive director. "We'd like to encourage more student athletes to pursue this field, because we think that what they learn on the football field helps to make them effective teachers in the classroom."

Nicole Hagner, a recent University of Pittsburgh graduate, agrees. "Athletics teaches you that it's possible to turn the right dream into a reality through hard work, discipline and teamwork. I'd like to bring that lesson to the classroom," she says. Hagner, who served as a student trainer on Pitt's football team, plans to use her grant to become certified as a high school biology teacher.



Nicole Hagner, University of Pittsburgh graduate and 1992 scholarship recipient.

As college football fans and parents of school-age children, we are proud to be a part of the "Hitachi Promise of Tomorrow" scholarship program. We hope that it helps more student athletes like John and Nicole to realize their dreams of becoming teachers.

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FINANCE

Borrowing Money From Loved Ones

To avoid discord and unexpected taxes, treat a relative's loan to your firm as formally as any other business transaction.

By Joan C. Szabo



PHOTO: GRACE TOR

A start-up loan *from her father helped Lisa Ahearn open her child-care center.*

Small-business owner Lisa Ahearn says she never could have launched her child-care center and nursery school three years ago if her father hadn't lent her the start-up money.

The $20,000 from her father enabled Ahearn to rent a 3,000-square-foot space for her business, pay staff salaries, and purchase equipment, such as a refrigerator, toys, and cots. Today, Ahearn and her 12 employees at First Friends Inc., in Northford, Conn., care for 50 children ranging in age from six weeks to six years.

While small-business owners frequently turn to home equity or personal savings for money to start or expand their enterprises, "the first pockets aspiring entrepreneurs usually dig into are those of their parents," says Charles J. DeLanoy, senior manager of BDO Seidman, an accounting firm in Washington, D.C. The reason is that start-up companies typically have a hard time obtaining bank financing because of the high risk of failure.

But too often small-business owners fail to follow some important lending guidelines when they borrow from relatives. And the neglect can result in any of a number of family and tax difficulties.

"Many entrepreneurs simply don't have the necessary paperwork drawn up or even sign a promissory note when they receive a family loan," DeLanoy says. In such a case, the Internal Revenue Service is likely to question whether a loan actually exists.

Borrowing from relatives can also cause family tensions and conflicts and even lead to divorce, says Dan Sautner, chairman of Padgett Business Services, in Athens, Ga. The company provides accounting and tax services to independent U.S. and Canadian companies.

To avoid personal and professional difficulties, an entrepreneur should treat a family loan as carefully and formally as any other business transaction, he says. A document listing the terms of the loan agreement should be prepared. The terms should include the date of the loan, the amount, the date the loan will be repaid in full, dates of loan payments, frequency of payments, and the interest rate. If the agreement is not formalized in writing, the business owner may not be able to deduct interest paid on the loan.

With a family loan, the individual providing the money should be sure to charge an interest rate that reflects a fair market value, or the lender may become subject to a federal gift tax, says David M. Bradt Jr., a partner in the McLean, Va., office of the Arthur Andersen accounting firm. Family loans of more than $10,000 with below-market interest rates could be considered gifts by the IRS, and the recipient could be required to pay taxes.

Federal tax laws allow individual taxpayers to give up to $10,000 a year tax-free to individual family members and other acquaintances. A married couple can give each individual up to $20,000 yearly. Amounts above that limit can be subject to gift taxes.

Gift-tax liability may be reduced or eliminated by the unified credit, which effectively allows each individual to transfer up to $600,000 in gifts and bequests tax-free in a lifetime or at death. For a married couple, the amount that may be transferred is $1.2 million. This amount is in addition to the unlimited number of $10,000 gifts that an individual may give away tax-free annually.

Accountants say it is important to keep gift-tax rules in mind when making a family loan because what starts out as a loan often turns into a gift. "Most people want to preserve the unified credit and not jeopardize their estate planning," says DeLanoy.

Estates valued over $600,000 are subject to a graduated tax of 37 percent to 55 percent on the amount exceeding $600,000. The 55 percent rate applies to the portion of an estate's value that exceeds $3 million.

The information on financial transfers among family members frequently turns up when a family member dies and a review of his or her finances reveals that a loan was made to a child or another relative. "A loan made on an estate-tax return is considered an asset, and it increases the value of the estate," DeLanoy explains. "The IRS will scrutinize the loan to determine if the interest charge is at a fair market rate."

Another problem could occur if the business fails. If that happens, the relative who lent the money will want to take a tax deduction for the bad loan, DeLanoy says. In such a case, the loan would be a nonbusiness bad debt in the year the loan became entirely worthless, and the loss would be treated as a short-term capital loss.

Be prepared, however, to argue the merit of the deduction with the IRS because the agency may wish to reclassify the loan as a family-member gift. Completing the paperwork will support the arm's-length nature of the transaction.

To avoid family tensions, Sautner says, keep family members informed about the business. Both sides should feel comfortable about the loan arrangement. If repayment becomes a problem, the small-business owner should feel that he or she can work out an acceptable payment plan without causing family problems. NB



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Small Business Computing

An already indispensable tool for communication offers more features and capabilities than ever.

By Jon Pepper

COMMUNICATIONS

Fax Machines: Plain And Fancy

It's not a link to the Internet's worldwide web of computers, or a lightning-fast PC with video and stereo reproduction capabilities, or a telephone that rivals a receptionist in communications versatility. It's simply a fax machine, yet for a great number of small firms it's a critical tool of communication.

Many small businesses, however, aren't taking advantage of the full range of fax capabilities, and today more fax features are available than ever.

In their most basic forms, fax machines are relatively inexpensive and can be operated effectively with minimal instruction. They seldom break down, and they provide a simple, reliable, day-to-day means of communicating with employees, current or prospective customers, or almost anyone else with whom users have a business relationship, whether they are down the street or halfway around the world.

"The fax is just [a] fantastic" tool, says Deirdre Fletcher, an administrative assistant with Financial Foundation, a commercial mortgage broker in Houston. She uses her fax daily to send loan application forms and other documents to customers.

Entrepreneur Claude Wadsworth of McCalla, Ala., characterizes the fax machine as the "lifeline" that keeps his various businesses running smoothly. "We use the fax for everything from sending orders, to sending and receiving insurance forms, to sending plot plans out for my wife's real-estate business," he explains.

A leading technology research and analysis firm, BIS Strategic Decisions, in Norwell, Mass., recently estimated that more than 3.1 million fax machines will be sold in the United States next year, up from less than 2 million as recently as 1992. If you are among those prospective buyers, you may find you can get even more use and versatility out of fax technology than you have before.

Until recently, most small-business buyers opted for economical stand-alone, thermal-paper fax machines even though incoming documents curled frustratingly and faded quickly. Now, however, faxes that use plain paper have become very affordable, and they are rapidly displacing thermal-paper models as the business buyer's machine of choice.



PHOTO: ERIKA S. HOWELL

Financial Foundation's *Deirdre Fletcher uses a stand-alone fax, which doubles as a copier.*

Also gaining rapidly in popularity are the growing number of multiple-function machines, which offer faxing, copying, computer-printing capability, and sometimes other features for close to the price of a plain-paper fax alone.

Conversations with industry analysts and fax-machine users also suggest that increasing numbers of buyers now are forgoing stand-alone fax machines and opting for the benefits of PC-based faxing. Under this system, the user's PC is equipped with fax software and either an internal or an external fax/modem. The user then can fax directly from a word processor, spreadsheet, or other program; keep a computerized log of all faxes sent and received; and maintain a phone-book data base of fax contacts.

The growing popularity of this method of faxing is attributable to declines in computer prices and gains in software capability, ease of use, and reliability, says Craig Giudici, an analyst with a widely respected market-research firm, Dataquest, in San Jose, Calif. Still, Giudici acknowledges that few computer owners are faxing directly from their PCs, and he feels that most who do so still use a stand-alone fax machine as well.

Why would anyone spend the money on two fax devices? There are several reasons. One is that despite the convenience of computerized faxing, some users require substantial training before they become skilled at using the software, whereas a stand-alone fax machine's overall ease of use is tough to match. Another reason is that any documents that aren't generated by a PC, such as magazine articles, must be scanned into the computer before they can be faxed, while scanning is unnecessary on a stand-alone fax machine.

Fletcher, of the Financial Foundation, uses a plain-paper Hewlett-Packard fax machine and explains that although her firm uses computers regularly and considered buying a fax/modem, it decided on a stand-alone model. "We fax lots of different types of documents that we couldn't easily scan into the computer, so we prefer the stand-alone machine," she explains. An added benefit of the stand-alone method, she adds, is that the firm uses its plain-paper fax as a low-volume copier.

Although Wadsworth, the Alabama entrepreneur, does have a fax modem and software that he uses occasionally, he says that most of the time it's easier to use the stand-alone fax.

What is likely to be the best fax method for you? Because there is no one answer for all business needs, we offer this list of some of our favorite stand-alone, multiple-function, and fax/modem products.

Plain-Paper Fax Machines

Hewlett-Packard FAX-950 (Hewlett-Packard Corp., 1-800-752-0900): H-P is a

leader in ink-jet printing technology, and the company has successfully transferred this expertise to its line of plain-paper fax machines, led by the FAX-950.

Key features of the machine include 300-dots-per-inch scanning and printing, enough memory to hold 20 pages of incoming faxes (which can be expanded to a 148-page capacity by adding memory), a 30-page automatic document feeder, a paper capacity of 100 sheets, and a transmission speed of 12 seconds per page.

The FAX-950 also has 100 speed-dial keys and the ability to make as many as 99 copies of a document.

The retail price of this model is approximately $850, including a one-year warranty under which a faulty machine will be replaced within 24 hours.

Sharp UX-1200 (Sharp Electronics Corp., 1-800-237-4277): Sharp also offers a rich line of plain-paper, ink-jet fax machines, led by the UX-1200. This model provides a 50-number speed dialer, a 100-sheet paper capacity, precise halftone control for excellent faxing or printing of photographs, and enough memory to store up to 28 pages of received faxes. Also standard is a 15-page automatic document feeder. The UX-1200 retails for $1,495.

Canon Faxphone B160 (Canon U.S.A., 1-800-652-2666): Canon has applied its exceptional ink-jet printing technology to the Faxphone B160, a plain-paper fax machine that produces crisp-looking documents at 360 dots per inch, has a 20-page memory capacity, and a 132-number speed dialer. The Faxphone B160 also includes a parallel interface, so it can be connected to a computer and used as a printer. The retail price is $899.

Mita LDC-640 (Mita Copystar America, 1-800-222-6482): If you plan to receive high volumes of faxes or if you often use your fax as a copier, a laser rather than an ink-jet model likely makes sense. Laser output is somewhat clearer than ink-jet printing, and printing speeds are generally much greater.

Although ink jets cost less than lasers, ink-jet supplies are considerably more expensive. Mita's LDC-640 is an excellent entry-level laser fax that can produce 400-dots-per-inch resolution in 32 shades of gray. Moreover, Mita's image-smoothing technology makes documents appear even crisper than specifications might indicate.

The LDC-640 can transmit at 12 pages per minute and has a 250-sheet tray suitable for letter- or legal-size paper, seven pages of memory (expandable to 130 pages), a 50-number speed dialer, and most of the customary fax bells and whistles. The list price is $2,295.

Multiple-Function Fax Machines

DOC*IT 3000 (Okidata, 1-800-654-8326): The Okidata DOC*IT combines the abilities of a plain-paper fax machine, scanner, copier, and printer in a single integrated product. While the DOC*IT has been available for some time, Okidata recently released a new version of its DOC*IT GROUP fax software that will support networks of up to 25 users on a single DOC*IT machine.







The new software also improves fax transmission time and includes helpful user-selected billing codes, which make it easy to track and charge back outgoing faxes. The list price of the DOC*IT is $2,499.

Hewlett-Packard OfficeJet (Hewlett-Packard Corp., 1-800-752-0900): H-P recently introduced a multiple-function device for small businesses, the H-P OfficeJet, which combines printing, faxing, and copying functions for a list price of $959.

The plain-paper unit can print documents at a resolution of 600 by 300 dots per inch, and it comes with an industry-standard parallel interface for connecting any IBM-compatible computer.

PC Fax/Modems And Software

U.S. Robotics Sportster V.34 (U.S. Robotics Inc., 1-800-342-5877): U.S. Robotics, a leader in the modem market, now has a line of high-speed fax modems aimed at the small-business market. The Sportster V.34 modem meets all the latest high-speed-modem protocols, including the ability to send and receive faxes at speeds up to 28.8 kilobytes per second (kbps) to a similar fax/modem at the other end of the line. List price is $329 for the internal model and $349 for the external model. A Macintosh-compatible version lists for $369.

AT&T Keep-In-Touch Card (AT&T, 1-800-482-3333): For mobile users, the AT&T Keep-In-Touch card is a fax/modem that fits in the industry-standard card slot (PCMCIA slot) found in most of today's portable computers. The AT&T modem is unique in offering high-speed (14.4 kbps) fax transfers via either a cellular phone link or a conventional wired-phone connection. The retail price is about $240.

WinFax Pro 4.0 (Delrina Corp., 1-800-268-6082): Delrina's award-winning WinFax Pro 4.0 software features an excellent fax log, provides for remote fax retrieval, and can handle electronic mail as well as faxes. It allows users to fax directly any document produced with software that runs under Microsoft's Windows operating environment. It requires a bit of study to master WinFax Pro, but, once learned thoroughly, the software provides powerful, sophisticated features. List price is $129.

Odds And Ends

Recoton T1350 Automatic Fax Switch (Recoton, 1-800-742-3438): One accessory that might ease your office life with either a stand-alone fax machine or fax/modem is Recoton's T1350 Automatic Fax Switch. You simply plug the device between your phone and fax device, and it flawlessly directs incoming voice and fax calls to the appropriate device. This allows you to save money by having a fax machine share a line with a voice phone. The list price is $129.99.

Ford F-Series has always carried a lot of weight with independent businessmen like Bill Duff. So much so it's been the best-selling truck seventeen years running.* For a lot of good, solid reasons:

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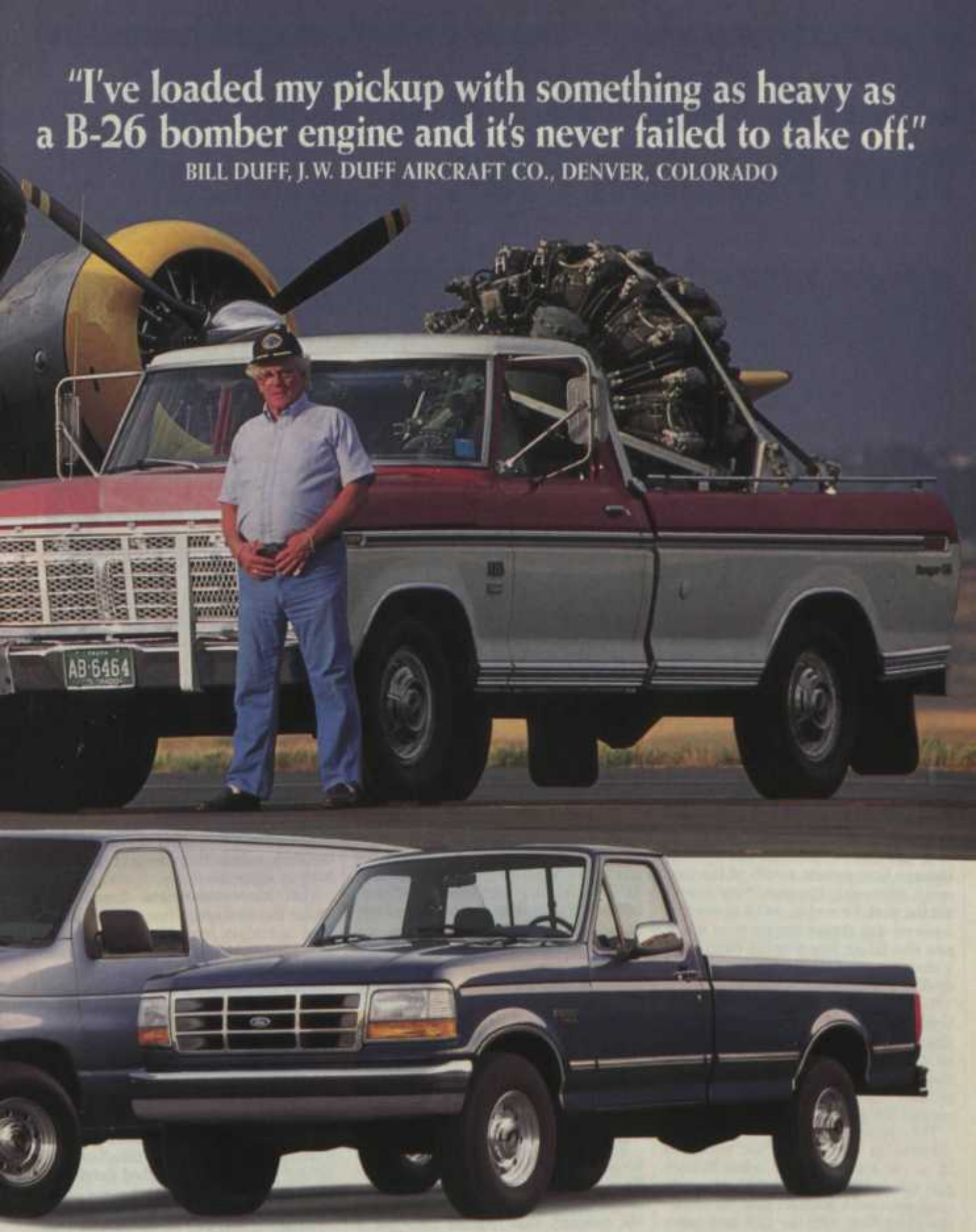


*Based on 1977-'93 CY manufacturer's reported retail deliveries by Division.

FORD WORKFORCE

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BILL DUFF, J.W. DUFF AIRCRAFT CO., DENVER, COLORADO



BUILT FORD TOUGH

Ford

BENEFITS

Letting Experts Run Your Pension Plan

As federal rules for pension plans grow more complex, small-business owners are turning to professional plan administrators.

By Randy Myers

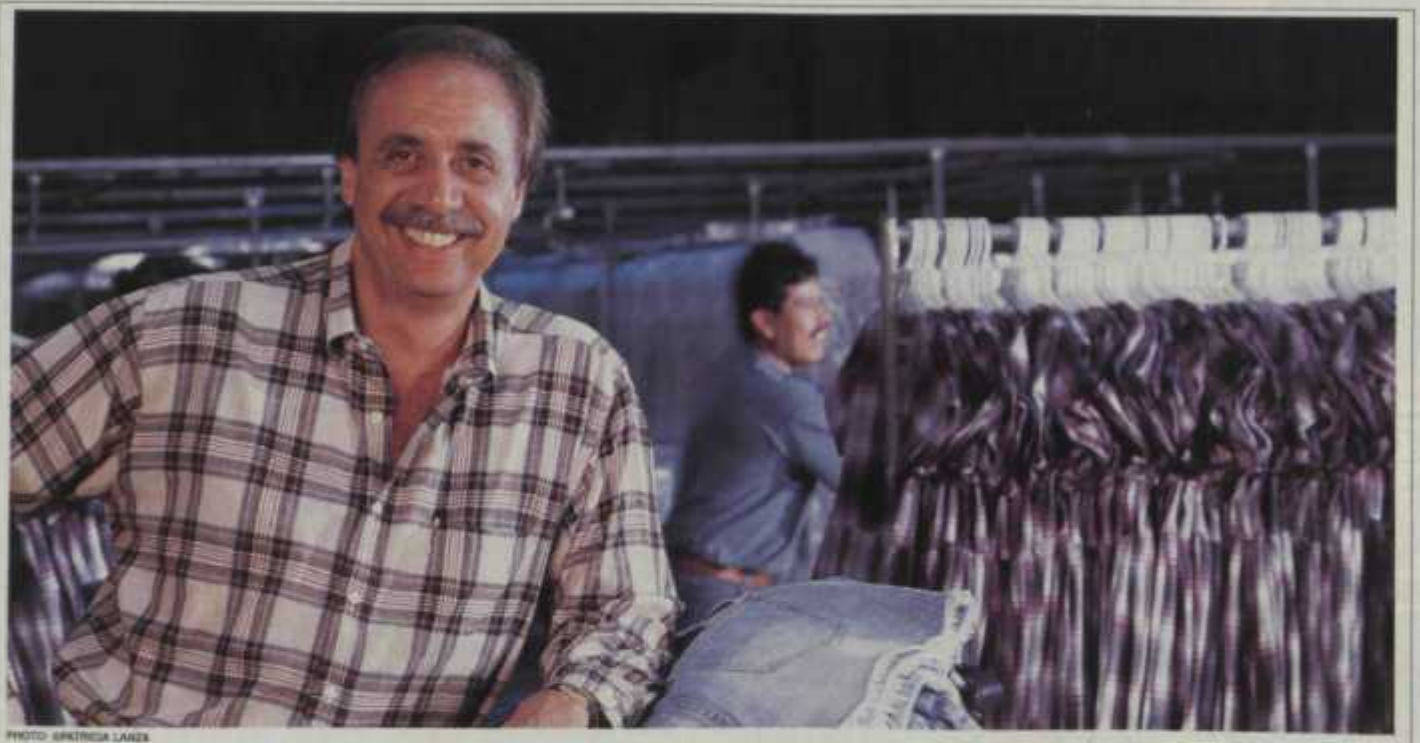


PHOTO: PATRICIA LANZA

Clothing-store owner *Morrie Dym found it "a little overwhelming" to run a pension plan for his 200 employees, so he gave the task to an independent administrator.*

Like many business owners who have launched retirement plans for their employees, Manfred Schwan found that administering the plan was a headache he could live without.

"I don't know how we did it," the Chicago businessman recalls of the time spent overseeing the plan. "Our lawyer did the work for a while, but it seems that someone was always coming to us with a new idea [about investing the funds], and it always seemed like those people wanted to skim a percentage off the top."

Today, Schwan has put his frustrations behind him, not by terminating the profit-sharing retirement plan at Schwan Business Machines Inc., where he is president and owner, but by employing an independent benefits-administration firm to manage the plan for a fixed fee.

The administrator, AVM Financial Services, in Schaumburg, Ill., maintains all of the plan's records; communicates plan information and account balances to employees each quarter; files the requisite Form 5500 with the IRS each year; and ensures that the plan conforms to government regulations on employee eligibility and allowable funding levels.

Randy Myers is a free-lance writer in Dover, Pa.

What the administrator doesn't do is play any role in, or have any stake in, the plan's investment program. Schwan says AVM's president, John Maloney, "doesn't bother me with trying to put my money into this or that insurance group, and that's working very well for me."

Morrie Dym, president and owner of Studio 5 Clothing Stores Inc., in Los Angeles, has a locally based administrator, too, and likes the arrangement. If you use a large company headquartered in another city, he says, you could "wind up talking to some person on the other side of the country who doesn't know who you are. Yet if they make a mistake, it could be a disaster for you."

Employers usually have four options for administration of their pension plans: They can do it themselves, or hire a lawyer or accountant to do it, or engage the company that handles their plan's investment program, or use a benefits-administration firm such as AVM.

Shifting and increasingly complex federal regulations for corporate pension programs preclude most companies from doing the job themselves. And many attorneys and accounting firms consider the work outside their scope of responsibility or expertise.

That leaves investment firms—from banks and brokerage houses to mutual-fund operators and insurance companies—and third-party administrators. Each brings certain strengths, and competition keeps most of their fees about the same. Although some investment firms may offer "free" administration services, those costs are covered by commissions or operating fees that are tied to the size of the plan's investment portfolio.

"My experience has been that it's not that much more expensive to use a pension consultant or that much cheaper to use a bank or brokerage firm," says W. Robert Berkebile, a certified public accountant who is tax manager at the York, Pa., accounting firm of Miller & Co.

Before a business owner decides who should administer the company's pension plan, it's worth asking whether an administrator is needed at all. The answer depends on the type of plan you have.

Simplified employee pension plans, or SEPs, are little more than high-limit

ENTREPRENEURS WHO "KNOW IT ALL" ARE NOT INVITED TO READ THIS PAGE

Why every business owner should take a moment and read this message

It's a tough world out there. Each day it becomes more difficult for an entrepreneur to devote enough time to all the necessary matters needed to grow or maintain a business. You know that you're always finding your hands full of time intensive work: generating sales, motivating a work force, maintaining productivity, handling personnel challenges. Each day becomes a battle to wade through the piles of regulatory rules and reports, to comply with workers compensation, the IRS and state bureaucracy.

Consider the Toll it Takes on You and Your Small Business — in Time, Money and Emotional Energy

My name is George Gersema. I'm the founder and CEO of Employers Resource, and I'm going to let you in on some IMPORTANT INFORMATION which can make your life and your business much easier to handle, more profitable to run and best of all, provide you with the freedom and ease of mind needed to effectively compete in today's business climate.

WARNING! The Information That I am About to Reveal to You is Not for Everyone

If you're one of those lucky entrepreneurs who knows everything, but everything, about succeeding in business, then what follows is not for you. But if you're an open-minded business person with a thirst for information and with a goal to achieve the kind of business success that you've worked hard for, then I urge you to read what I'm about to reveal to you.

The Co-Employment Solution

My company provides a state-of-the-art service called co-employment. We've been providing this service nationwide since 1985, in fact we pioneered the industry. We assist business people in a very unique way – by taking on the important, time consuming and money draining regulatory and administrative obligations that are keeping many entrepreneurs just like you from devoting their talents to effectively growing their businesses.

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And even better yet, we assume FULL LIABILITY for every task we do on your behalf; liability that's recognized by all governmental authorities. We're licensed and bonded in every state we operate.

Plus to make sure that you comply with regulations fully and effortlessly, Employers Resource provides ongoing support to assist and guide you. We're dedicated to helping your business succeed, that's why you'll have your own, personal account and payroll specialists always available. They'll give you straight answers to all your questions.

More Than Meets the Eye

Of course, this is just the tip of the iceberg, because Employers Resource provides much more than just helping you cope with payroll and governmental requirements. If you're thinking that we're just another payroll service — nothing could be further from the truth. Employers Resource cares more about your business than just doing payroll, that's why we've created a host of other services that are vitally important to any business.

We'll provide your business with our top notch benefits programs, encompassing both health and worker's compensation. You'll save a GUARANTEED 10% (or even more) on workers' compensation with our safety program. And better yet, workers' compensation is paid per pay period, not months in advance.

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Best of all, Employers Resource is FAST AND ECONOMICAL. All it takes is writing one check every pay period and you're done...it's that easy. We take the burden off your back...by becoming an extension of your business, and we've done this with *1300-plus* businesses nationwide, employing over *7000* workers.

What Some of Our Clients Have To Say About Employers Resource

"Employers Resource offers our company a way to give our employees a comprehensive medical plan at a price they can afford... [CO-EMPLOYMENT] made it possible for our company to have workers' compensation at a cost that would not put us on the brink of bankruptcy." **David Hinds, President**
Van Tone Company

"By using Employers Resource to handle administrative procedures, my partners and I have gained more time to focus our efforts on our business."
David Bloom, Owner
Pick-N-Pull Auto Dismantlers

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Now the only question is, how long are you going to let the "paperwork" side of your business tie up your valuable time and resources, when Employers Resource could maximize your time and freedom more profitably? If the idea of being able to handle the day to day functions of your business easier, more efficiently and economically sounds good to you. And if you can envision the incredible service and solution that co-employment affords, then we urge you to call Employers Resource immediately at:

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One Final Note...

Co-employment may not work for every business. We can't always save you money or improve your benefits. But even without the savings, many of our clients have found a greater value in the freedom of time and emotional energy. You owe it to yourself to discover the fantastic benefits of working with Employers Resource, call today.

EMPLOYERS RESOURCE

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PHOTO: STOCK BUCHANAN

Business-machine company owner *Manfred Schwan's pension plan administrator doesn't press him on where to invest the plan's funds.*

Individual Retirement Accounts that the company sets up and funds for each employee, and they are relatively easy for a company to set up and run on its own. (See "Pension Options For Small Firms," March 1994.)

Their slightly more complex cousins, salary-reduction simplified employee pension plans, or SAR-SEPs, can accept contributions from employees and employers alike but must undergo periodic discrimination tests, which make sure the plans don't become weighted too heavily in favor of highly paid employees. Obtaining the advice of a professional administrator may be the easiest way to ensure your firm's compliance with the law under this type of plan.

Profit-sharing and 401(k) plans are considerably more complex than any type of SEP program and almost certainly require the guidance of a professional administrator.

"I think that most people in my position look at this stuff and their eyes just glaze over," says Dym of Studio 5. The firm operates a 401(k) plan for more than 200 full-time employees, and he says that "it becomes a little overwhelming."

An advantage to using an independent administrator is that it frees you to invest your plan's assets wherever you like—not just in the investment options suggested by a particular bank, brokerage firm, insurance company, or mutual-fund operator. Generally, independent administrators are also more likely to offer an employer a customized pension plan.

Dym's administrator for the past four years, Price, Raffle & Brown Administrators Inc., in Los Angeles, provides the personal touch that he prefers, he says. "When you call them, you get an answer. And when you have a problem with your investment house, you have someone who can go to them on your behalf."

Using separate parties for investment and administration services also allows employers to dismiss one or the other, if necessary, without rebuilding the entire pension program.

Though many employers have chosen the independent-administrator arrangement, others prefer the convenience of one-stop shopping. A number of mutual-fund operators and brokerage houses offer one-stop plans: Fidelity Investments through its Corporate Plan 100, Kemper Financial Services through its Preferred K Plan, Merrill Lynch with its Daily K Plan, Legg Mason with its Value Funds 401(k), and T. Rowe Price Associates with its Century Plan. These plans typically charge a flat administration fee plus an annual fee for each eligible employee.

Charges by independent administrators to oversee a 401(k) plan for a small business typically range between $1,500 and $2,000 a year plus $30 to $60 for each participant, while fees for profit-sharing plans are about 20 to 25 percent lower, according to Paul Polapink, vice president and chief actuary for Price, Raffle & Brown and president of the American

Choosing An Administrator

G. Patrick Byrnes, president, and Scott Salisbury, senior vice president, of Actuarial Consultants Inc., in Torrance, Calif., were asked by *Nation's Business* to pose 10 questions that should be asked when you're interviewing a prospective pension-plan administrator.

1. *Do you provide completed tax returns ready for signature and filing?*

Some administrators/record keepers complete only portions of the tax return. You must then finish it yourself or have your accountant do it.

2. *What would your communication program for my employees contain?*

Some companies simply go over a one-page summary and ask employees to complete enrollment and beneficiary-designation forms. Others hold sessions to discuss risks and rewards, asset allocation, retirement accumulation studies, and the specific impact on take-home pay after contributing to the plan. (If you have employees for whom English is a second language, the plan administrator should be fluent in any employee's primary language.)

3. *What are my investment choices?*

If the investment choices are not limited to one mutual-fund family, you have more flexibility to make your selection.

4. *Do you have a toll-free phone number to a customer-service representative?*

Most 401(k) plans have interactive voice-response systems. Many systems, however, do not allow for a caller to speak with a person, and most lack services for participants who don't speak English.

5. *Are the 800-number conversations recorded for safety and accuracy?*

If not, you may have problems resolving a discrepancy with a transaction.

6. *Do you have any experience in solving compliance issues through the following new IRS programs: Administrative Procedure Regarding Sanctions, Closing Agreement Program, Voluntary Compliance Resolution, or Delegation Order 97?*

The IRS developed the programs to encourage compliance with pension regulations; in-depth knowledge of those programs is required for proper plan administration.

7. *If we adopt a 401(k) plan, how often would you perform discrimination tests?*

The IRS mandates that discrimination tests be performed at the end of each plan year. Preliminary tests, however, are often done for planning purposes.

8. *What is the average number of years that your administrators have been working with pension plans?*

Experience in excess of 10 years is desirable.

9. *Is there a fee for terminating your services?*

Some money managers assess a discontinuation fee if the contract is terminated within a specified number of years.

10. *Do you provide a performance guarantee?*

Most high-quality companies will guarantee turnaround time for administrative services such as benefit statements, tax return preparation, distributions, and loan processing.

Society of Pension Actuaries, based in Arlington, Va.

Finding a plan administrator can be as simple as looking in the local Yellow Pages under "Pensions & Profit Sharing Plans" or "Retirement Planning Services." Experienced buyers, however, say it's best to ask other business owners and trusted advisers for recommendations and then interview the most promising candidates, perhaps at their offices.

"Take some time and make sure that whoever you're working with has an opportunity to explain all the ramifications of their proposal," says James Demcak, chief executive officer of the software developer Harte Systems Inc., in Oak Brook, Ill. He had problems with the administration of his profit-sharing plan before switching to AVM.

To avoid difficulties, Demcak advises, employers should:

- Question prospective administrators on the scope of work covered by their fees.
- Ask administrators how long their current fee schedule has been in effect, and how long it will remain in force.
- Get references from a couple of clients who have been with the administrator for two or three years.

Although the American Society of Pension Actuaries does not make referrals, it does confirm whether an administrator is a member and whether he or she has earned the organization's CPC (certified pension consultant) or QPA (qualified plan administrator) certification.

> **"Take some time and make sure that whoever you're working with has an opportunity to explain all the ramifications of their proposal."**
>
> **—James Demcak, Harte Systems Inc.**

If an administrator also sells investment products such as annuities or mutual funds, be sure he or she clearly distinguishes between the two and doesn't force you to invest your plan's funds in a product that may not fit your investment strategy, says AVM's Maloney.

Finally, don't overlook the value of using an administrator who offers a positive, active approach to providing service. For example, in 401(k) plans, the contributions of highly paid participants, such as owners and managers, are limited by the amounts being contributed by lower-paid employees. These employees may participate more heavily if they get timely, frequent, and accurate information about their plan. And one area where large investment firms and leading private administrators may have an edge: They can provide participants with portfolio evaluation on a current-day basis.

If hiring a pension-plan administrator sounds complicated, rest assured that it's far easier than mastering IRS regulations. If you use an administrator, though, don't tune out of the process completely. Just as taxpayers are responsible for their tax returns regardless of who prepares them, employers are responsible for making sure their pension plans comply with the law.

If your administrator is an attorney or CPA, however, or has been accredited as an "enrolled agent" by the IRS, he or she can represent you in your dealings with the tax agency.

"The biggest benefit of having a professional administrator is that they keep us in compliance with the law," concludes Tom Rakow, president of IHC Group Inc., a general contracting firm in Elgin, Ill. "We can't do that ourselves." NB

To order a reprint of this story, see Page 79.

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REGULATION

A National Forum For Entrepreneurs

At state meetings, business people are forging an agenda for 1995's White House Conference on Small Business.

By Laura M. Litvan



PHOTO: BRUCE ZAKE

Home-based consultant *Zandra Burlak, conferring with Walt Illingworth, vice president of Commercial Forgings, in Cleveland, is concerned about federal mandates.*

Across the nation, small-business owners are preparing for the third White House Conference on Small Business, where entrepreneurs will express their views on how Washington can help them succeed.

And from the small-business community, fresh from defeating employer mandates for health care, there's no shortage of opinions. Take Ohio, for example.

Delegates to a state preparatory session in Columbus this past summer expressed concerns about federal paperwork requirements, health insurance, taxes, trade opportunities, and the availability of small-business loans.

"Unfortunately, most of this is like sticking your finger in the dike. We're working to correct previous legislative errors," says John Hexter, owner of Hexter and Associates Inc., a Cleveland-based printing company.

From June 11 to 15 next year, about 1,800 small-business owners and managers being chosen as delegates at the state meetings will come to Washington, D.C., for the national meeting. Their task: Develop a list of 60 specific actions that Congress or the White House should take to improve the small-business climate.

Each recommended course of action must be summarized in one sentence—no small feat at a time when complex trade agreements are being made and major environmental laws are being updated.

The past two conferences, in 1980 and 1986, generated unified messages from small business about the need for government to address issues ranging from export assistance to costly government mandates.

Most notably, the 1980 conference has been credited with spurring passage of the Regulatory Flexibility Act of 1981, which requires agencies to consider ways to ease a law's impact on small firms.

The delegates to the White House conference will take to Washington a list of key concerns agreed upon by the business executives in state meetings. Thousands of owners and managers across the country have already met to elect state delegates to the national conference as well as share concerns about business challenges in the 1990s.

Under the conference's rules, 1,130 delegates will be elected at the state meetings, and 695 more will be appointed by President Clinton, members of Congress, and state governors. Anyone who owns, operates, or works for a business with fewer than 500 employees and who lives in the state being represented is eligible to be a delegate.

Each state will have at least one state meeting. California, Florida, Illinois, New York, Ohio, and Texas are scheduled to hold two meetings because of their size.

The number of delegates elected at a state meeting is twice the state's number of Electoral College votes, with the exception of the least-populous states, which will have no fewer than 10 delegates. Nineteen states have already selected their delegates, and seven more states will hold meetings in November. (For a complete list of meeting dates, see Dateline: Washington in the May issue.)

The state meetings will also give observers a chance to learn about the wide range of concerns shared by managers of small firms, from home-based consulting firms, to retail stores, to manufacturers. For that reason, the state meetings are widely attended by federal regulators, lobbyists, and the news media.

Here's a snapshot of what went on at one of two state meetings in Ohio, the July 21 conference in Columbus, where 320 small-business managers discussed how government hinders and helps them:

They spent the day in a series of nine break-out sessions, each addressing specific policy areas, such as international trade, taxation, and the environment. Participants discussed and voted on issues for possible inclusion on a list of policy concerns the Ohio delegation will take to Washington next year.

The 21 delegates elected at the meeting will share an agenda developed during the daylong conference by all of the business owners present. The delegates, of course, will also take with them their own experiences and concerns. Many of the delegates who are consultants to other businesses will be prepared to convey the challenges their clients face. Zandra Burlak, an Ohio delegate and president of Alpha Professional Inc. of Sagamore Hills, is a home-based business owner who advises manufacturing firms on ways to make big cost savings.

Burlak says she is most concerned about the potential for a mandate that employers provide health care for their workers, which was a key issue in this year's congressional health-care debate and could emerge again next year. Many of her clients, she says, do not offer health-care insurance and might be jeopardized by such a requirement. "The message I want to send is the government should stop mandating what small business should do," Burlak says.

Marcus Maddox, another Ohio delegate



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and the owner of a 10-year-old Dayton construction company, hopes to weigh in on government procurement issues at the national conference. Over the years, his company has earned part of its revenues by doing construction work at Defense Department facilities in Ohio.

Maddox, president and owner of Maddox Building Systems of Ohio Inc., says he is also concerned about small firms' difficulties in getting loans for expansion. "Often, we're in the predicament where



PHOTO: CANDY SAGON

Defense contractor *Marcus Maddox will bring up small-business procurement.*

we're not able to get the loans we need," he says. "There are not enough high-risk venture-capital opportunities out there."

Many of the concerns raised at the Ohio meeting were perennial, such as too much regulatory paperwork. Others, such as the challenges small companies face today in incorporating new technologies into their operations, were reminders of how much has changed for the business community since the last conference, in 1986.

Here are some of the key issues that emerged during the Columbus meeting:

Health Care: This topic dominated the meeting. Small-business owners from Ohio strongly oppose a government mandate that employers provide health insurance for their workers, and they want the Ohio delegates to make sure Washington knows. Some business owners said they do not offer health care to their employees and they believe a mandate would force them to cut their payrolls.

International Trade: Business owners are eager to learn how they can identify new opportunities for their companies resulting from the North American Free Trade Agreement and the pending Uruguay Round pact under the General Agreement on Tariffs and Trade. Managers want a centralized way to get basic information on exporting and government efforts to promote it.

Regulations And Paperwork: A recurring theme was the need to ensure that federal regulations be as cost-efficient and effective as possible. Business owners said they want to require government officials to use risk assessments and cost-benefit analyses as tools when they draft regulations. Risk assessments are used to measure the adverse health effects of exposure to a substance, while cost-benefit analyses measure the costs of abating such a risk against the resulting benefits.

Information Technology: Businesses want to learn more about using the Internet, an international communications network, and they want information from the government on this resource. At the same time, they emphasized that they think there are massive opportunities for small-business owners in the development of the "information superhighway," and they want business, not government, to take the lead.

Procurement: Business owners want more government contracts set aside for small firms. Some small-business owners at the conference got their start relying on contracts set aside for women-owned or minority-owned firms, and they expressed dismay that many agencies, including the Defense Department, are not meeting their goals for "flow-downs"—subcontracts to minority-owned businesses from larger prime contractors.

Environment: A key issue was the liability scheme under the Superfund law governing cleanup of hazardous-waste sites. Under the law, any entity that contributed in some way to the pollution at a Superfund site can be held entirely responsible for cleanup at the location. Legal disputes over who is responsible for what part of clean-up costs often go on for years. Business managers at the Columbus meeting said they want the law changed to allow a small company that contributed only minimal amounts of waste at a site to settle its liability early in the clean-up process.

Access To Capital: The focus was on small businesses in the services industry, which have a particularly difficult time obtaining bank loans for start-up and expansion because they frequently lack the inventory or heavy machinery that other companies use as collateral to secure loans. Many business owners called for banking reforms to address the problem.

MANAGING

Branching Out

Want to open another location? Here are tips to help you decide when, where—and whether—to make the move.

By Roberta Maynard

Things are going well with the business you've spent years developing. Now you want to repeat that success by opening a second location. Because you've already fine-tuned your operation, all you need to do is find a site and you're on your way, right?

Unfortunately, no. Transferring a successful concept requires almost as much thought and planning as a start-up. "There is often the assumption: If we can do it well here and now, we can do it better someplace else," says Stephen Kotvis, vice president of RSI, a retail-market planning firm in Minneapolis. That casual approach, he says, is risky.

Kotvis recalls how a successful restaurant owner from upstate New York opened a similar establishment in Chicago; it quickly failed. The owner had neglected to do basic research. Too late, he discovered that the area he had chosen had a walking clientele, not a driving one, which was crucial to the business's New York success. Not only that, the new Chicago operation faced about 50 established competitors.

Taking the time to do careful research can help you avoid such calamities.

Provided your local economy is favorable for your product or service, the next step is to find out whether the market can support another location and where that location should be.

To answer both questions, you need to know where your current customers are located. Many retail companies track this information by asking at the cash register for each customer's ZIP code. You could simply have employees ask several hundred customers where they live, and plot the results on a map. With luck, it may reveal an ideal area for a second site.

It is then critical to assess how much damage the new store might do to your original operation. "You probably don't want to cut off more than 20 percent of your [existing] customer base," says Kotvis. "In fact, we like to see about 10 percent. But if you're exceeding capacity [at your current location], you may be able to give up as much as 30 percent." The decision should be based on your own market and sales trends.

How far apart should your stores be? Seattle-based Starbucks Coffee Co., which is expanding at the amazing rate of three stores a week, can—and does—have successful locations one block apart, in places where there is sufficient population density.

But a business that has a more regional draw might need to space its locations several miles apart, typically three to five miles, according to Kotvis.

Study the market area you have selected just as thoroughly as you would for a first location. "You have to know the [new] area," says Terri Bowersock, owner of Terri's Consignment World, based in Mesa, Ariz.



PHOTO: SONIA F. GERO

Know the area *before you expand, says Arizona retailer Terri Bowersock.*

She will soon open her fifth Phoenix-area furniture consignment store.

"Find out where people shop, which roads they take," she says. "We discovered that in one area, people traveled from the east side of town to shop," but people on the west side seldom shopped on the east side. "That changes the size of your customer base."

Research the area's demographics. "We made a mistake" with one store, says Bowersock. "We went for price and put [the store] in an area where annual incomes were about $20,000." After studying her customers at the other locations, she discovered that she needed an income level of at least $40,000 to be successful. So, for future stores, she selected the more-affluent areas of Tempe and Scottsdale.

You can get demographic information by using one of many electronic data bases available (see "Market Research" in the Yellow Pages), or check your local library and local government for data pulled from the U.S. census.

Find out what you can about forecasts for the area. Is there an empty lot across the street from the new site? You'd better look into it. You may discover a competitor already owns the land. Or the site may soon be home to a development that could change traffic patterns—away from your fledgling operation.

Check property ownership in the land records in your county or local jurisdiction. To find out about future development in the area, review your city's or county's comprehensive plan for land use.

Apart from considerations about the physical site, branching out will change the way you do business. "With four stores, it's a whole new world," says Bowersock. "I'm no longer in the furniture business; now, I'm in the people business. I had to write manuals [for consistency of procedures and policies] and find the right team—independent people who aren't looking for someone to hand them a checklist of things to do."

Also for consistency, she is adding a management layer to handle pricing at the warehouse rather than at individual stores.

Because operations will have to be more formal, be prepared to develop systems—or adapt existing ones—for information, personnel, production, purchasing, quality control, etc. Pay particular attention to communications, which can break down quickly when employees are in different locations.

Finally, before making any commitments, make a careful and *realistic* evaluation of what it will cost to open a new store, including personnel and inventory expenses as well as upfront building costs.

How will you finance the expansion? Do you have a manager with the talent to run the second operation? What will it cost to advertise and promote the new location? Remember to factor in the estimated loss of business at the first store.

If you do decide to branch out, look for a situation like the one where you first succeeded, Kotvis recommends. Generally, if you can find a similar mix of competitors, demand, and location for your second site, then your chances of repeating your first success are good. NB

Family Business

When a family company is sold; strategies for resolving disagreements; a mismanaged trust fund.

OBSERVATIONS

Emotional Issues Are Part Of The Price



PHOTO: T. MICHAEL KEZA

By Sharon Nelton

There's more to negotiating the sale of a family business than coming to agreement on a price. Emotional issues have to be considered, too.

That's what the family of Owen A. Meredith found when it sold Lloyd & Meredith, an Atlantic, Iowa, farm equipment business that had been in the family for more than a century. Owen, who had run the company since the early 1970s, died of a heart attack in January at the age of 75, leaving his wife, Catherine, and three children: Stephen O. Meredith, a corporate lawyer in private practice in Boston; Patricia Cole, a university official in Fort Lauderdale, Fla.; and Pamela Meredith Fredrikson, a nurse practitioner in Seattle.

Catherine Meredith and her children all shared ownership in Lloyd & Meredith, and they quickly decided that it would be best to sell the business. The children all had their own careers in distant states, and the family agreed that the company was a hands-on kind of business that could not be managed on an absentee basis.

Steve, 42, got the job of handling the sale, he says, "basically by default." But since he frequently represents venture-capital funds in management buyout transactions, he says, "I was not uncomfortable in the role of negotiating the sale of this business."

Finding the buyers was the easy part. He immediately sought out the two most logical prospects: his father's two long-time lieutenants. They were interested, and a deal was made. The buyers would pay cash for the liquidation value of the inventory and the building; the business would continue to be known as Lloyd & Meredith; and, for the next four years, the Meredith family and the new owners would split the profits.

The terms of the agreement met three of the Mereditths' major emotional needs, and it provided advantages to the new owners as well. One of the emotional needs was retention of the name. "My family had lived in southwest Iowa since the mid-1800s, and this business was really what we were known by," says Steve. And, of course, the new owners would benefit from the goodwill that the name represented.

The second emotional factor was the family's desire to maintain some kind of link with the business—they weren't quite ready to let go. The four-year sharing of profits enabled them to keep that connection for a while and enabled the new owners to pay a lower initial price.

The third emotional consideration centered on the many artifacts and mementos that were contained in the building that houses the business. These ranged from an antique hay wagon and tractor to old family portraits.

"We certainly did not wish to give up ownership of them," says Steve. But the family did not have a place to store them, either. The agreement specifies that the Mereditths can continue to store the items at the business at no cost. The advantage to the new owners? Many of the items are still visible to people who come into the store. "It's like the same old place to the customers," says Steve.

A note of caution: Selling the family name along with the business can be risky—the new owners could run the business into the ground and tarnish the family name. But Meredith says that with the buyers of his family's business, the risk "is as low as it gets. . . . In fact, from all reports, the business is doing fabulously well this year." ■

PLANNING

Managing Family-Business Conflict

By John L. Ward and Craig E. Aronoff

Conflict is a normal part of life. Different people and different families experience differing degrees of conflict in differing ways—but all experience it.

Moreover, we suspect that the prevalence of conflict in family firms is growing. As one family business concluded at a recent family-business conference: "Conflict is a growth industry. We wish we could find a way to invest in it."

In family businesses, several factors contribute to conflicts. One of the most important is the different perspectives from which members view the company. Another is change.

Look at the following drawings. Are the objects they depict different or the same?



That's an empty ice-cream cone seen from differing perspectives. Depending on your vantage point, it sure looks different, doesn't it?

The same is true in family firms. Family stockholders not active in the business may see things differently from family members working in the firm. In-laws' views may differ from those of



PHOTO: T. MICHAEL KEZA

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blood relatives. First-borns and younger siblings may have divergent perspectives. Obviously, people in different circumstances can see the same problem differently and come to different conclusions.

As the family expands, the probability and frequency of conflict increase.

Change can foster conflict in several ways. The faster the change, the more likely and more difficult the conflict can become. Change also produces opportunities, but even in opportunity there are many chances for disagreement. Fear of disagreement or conflict can make families resist change; they may seek to avoid conflict at almost all costs.

There are at least four strategies a family can use to deal with conflict: avoidance, arbitration, compromise, and creative resolution.

Avoidance. This strategy, also called deferral, sometimes works. An issue or problem can go away. No use fighting over things that don't need fighting about. Unfortunately, many issues, especially in business, cannot be deferred.

Besides, avoiding conflict deprives the family of the opportunity to learn how to deal with it.

Arbitration. Family members often seek an "arbitrator," a third party to help resolve disputes. Sometimes "Mom" is a great ear. She usually listens sympathetically and may have special influence over other family members. Other times, a key business adviser or nonfamily executive is approached by a family member: "I think such and such. Can you help me convince my relatives of that?"

Sometimes an arbitrator or mediator can help—not by proposing a solution but by serving as a forum that elevates the quality of the debate. A board of directors, especially one that includes independent directors, can provide that forum.

As much as possible, we urge directors or other facilitators to avoid taking sides. If you are invited or drawn into a family business conflict, try to avoid taking responsibility for the solution. Return responsibility for resolving a dispute to those directly involved. If you do not, you will be asked to shoulder burdens with increasing frequency, and family members will never learn to address issues directly or to manage conflict themselves.

Compromise. We encourage direct discussion of conflicts. Sometimes it can produce workable compromise. For example, a buy-sell agreement can be paid out over seven years if one party wants it to be five years and the other wants it to be 10.

Creative Resolution. What to do when compromise is not possible? Most important issues can benefit from the extra effort of seeking new, creative alternatives. A buy-sell agreement might be funded over a longer time if the seller is comforted by the security of knowing that if the business is sold, he or she can still benefit from any increased value of the company at the time of the sale. Aim for win-win, synergistic resolutions.

Families in business will have many conflicts. It comes with the territory. In fact, recognizing and grappling with conflict is a sign of progress. Whether a family business experiences success or pain depends on the family's skills in dealing with conflict and increasing confidence that conflicts should be openly and directly addressed.

We see two great "rules" in many family codes that sum it all up:

First, be hard on issues, soft on people.

Second, address differences directly and quickly. Don't let them fester. Keep talking, talking, talking until they're resolved. ■

How To Bring About Creative Solutions

Resolving conflicts in a family business requires patience and skill. Here are some steps you'll find useful:

- Define the problem first; don't start by presenting a solution.
- Prove you understand the other person's concerns by restating them and asking if that understanding is correct.
- Put all your energy into debating the *issue*. Don't allow yourself to get personal. We believe in the saying: "attack the problem; support the person."
- If resolution comes slowly, brainstorm more alternatives. Ask others to propose new alternatives without initially evaluating any of them.
- If the going gets tough, take a break. Come back to the topic the next day. In the meantime, resist dumping it on anyone else.
- Remember that how you address a problem will be long remembered. Think about what you say and how you say it. One family we know pretends that the discussion is being videotaped for next-generation viewing.



ILLUSTRATION: DAVID CHEN

MARK YOUR CALENDAR

Nov. 3, Chicago

"ESOP Workshop" shows family-firm owners how employee stock ownership plans can help their companies. For additional dates and locations, call Corey Rosen, executive director of the National Center for Employee Ownership, at (510) 272-9461.

Nov. 4, Itasca, Ill.

"Communication: Key To Building Family and Business Relationships" is a daylong conference. Contact Karen Wilger, Midwest Association of Family Business Owners, at (708) 495-8900.

Nov. 9-11, Orlando, Fla.

"Managing Succession Without Conflict," a seminar, will be repeated in June 1995. Contact Ross Nager of the Arthur Andersen Center for Family Business at (713) 237-2770.

Nov. 12, Asheville, N.C.

"Understanding Family Business" is a half-day seminar with a panel of family-business experts. Call Kaye Jenkins at Le Van Associates, (704) 669-0131.

Nov. 16, Hamilton, Ohio

"Helping Family Business CEOs Invent New Futures" is a one-day seminar featuring CEOs who have stepped down from their businesses. Call Richard L. Haid at (513) 868-1488.

Dec. 1, Miami

"Passing the Baton" is a workshop in succession planning. Contact Willabeth Jordan, director of the Family Business Institute at Florida International University, at (305) 348-4237.

Jan. 27-Feb. 3, Ocho Rios, Jamaica

"Jamaica Winter Family Business Seminar" is a week-long event sponsored by Goshen College and the Delaware Valley Family Business Center. Contact Henry Landes at 1-800-296-3832.

CASE STUDY

A Family Brought To The Brink Of Ruin

Peter remembers the excitement he felt when he received the first of three very large distributions from a family trust. He was 21 years old then, newly married, and looking forward to starting a family.

As a member of the fourth generation of a wine-making family, Peter has benefited from the success of the company but has never been involved in the business. His financial security was assured by a trust that was to be distributed at ages 21, 35, and 45. His younger siblings, a brother and a sister, also received considerable distributions at age 21 and, like Peter, were looking forward to distributions at ages 35 and 45.

Now, at 31, Peter has just learned that neither he nor his brother or sister will receive the remaining distributions promised to them. Peter's grandparents have recently discovered that their son John, Peter's uncle, has been mismanaging the trust funds under his direction, appropriating large sums for his own use.

Although they are furious with him, they also refuse to press charges because of the many family considerations. They recount the stories of how the family worked so hard to make a success of the winery. John's actions have threatened the financial security of the entire family.

"The money has never mattered to me, but now for the first time in my life, I have to worry about money and basic security," says Peter.

Even though his uncle has promised to pay back the money, such promises aren't reassuring to Peter. Peter has never had to work and now is concerned about how to continue his comfortable lifestyle as well as how to develop the job skills necessary to support his wife and children. "What are our family's options?" he asks.



ILLUSTRATION: DAVID CHEN

Turn This Crisis Into Opportunity

Readers old enough to remember living through the Great Depression recognize the shock and fear Peter is experiencing when financial hardship touches families previously thought to be untouchable.

I have high hopes for this family. It has survived in business through four generations of boom and bust, world wars, and consumer fads of every sort. All family members must join in the solution.

Many families make no attempt to remove trustees, advisers, executives, or directors who do not serve the best interests of stakeholders. This family needs to seek John's resignation and replace him with a trustee who will honor his or her fiduciary duty to trust beneficiaries. The entire family should be part of this important discussion, search, and decision.



PHOTO: SPIROS P. SERIO

Jayne M. Sassano, an attorney, consultant, and lecturer on tax matters, estate planning, and business transfers, is with The Cohn Financial Group, in Phoenix.

Family members don't need to press criminal charges, but they must communicate to Uncle John their expectation that all of the losses will be repaid. Budgets, conservative cash-flow forecasts, and professional third-party oversight of the repayment scheme are reasonable requirements to be placed on John. After all, had he borrowed from a bank, such computations and reporting mandates would be a consequence of the loan.

This close brush with financial ruin creates a unique opportunity for all family members to re-examine their lives. If no crisis had developed, they might never have recognized the fragile nature of success and the interdependence of their extended families. Hopefully, Peter and his siblings will decide to become productive members of the community, independent of the winery, and pass important values of self-reliance, hard work, and honesty on to the fifth generation.

Lack Of Vision Needs Attention

In order to determine what options are available to Peter and his entire family, a detailed assessment of the financial damage should be conducted by an independent business adviser. A written report on the status of the trust funds, as well as the likelihood of any recovery, would eliminate some of the family's stress and provide an important starting point.

The business itself may need a fresh assessment, also. The current crisis can be used to motivate family members and key nonfamily managers to do some valuable strategic planning.

While the family boasts about how hard it has worked, apparently its members have failed to teach responsibility to subsequent generations. Even if Uncle John hadn't precipitated this crisis, who would manage the family's wealth for the next generation? There is a clear lack of vision here, starting with the grandparents.

There is now at least one generation—Peter's—that has no sense of what the business is about. If the winery is still viable, there are plenty of options, but someone needs to provide leadership.

Peter and his siblings should begin educating themselves about the business, a process that might include actually working in the firm.



PHOTO: SCOTT GOLDSMITH

James M. Dugan, managing partner of Dugan Miller, an accounting firm in Pittsburgh.

The succession issue also looms on the horizon. Peter is 31, meaning that his grandparents, who are still calling the shots, are probably in their 70s or 80s. Since Uncle John has demonstrated that he is unreliable, this may be a great opportunity to begin grooming Peter, under family and management supervision, to become a future leader of the business. Who knows? With the proper guidance and nurturing, Peter may eventually be the one who will enhance and preserve the family's legacy.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. **Copyright © by the Family Firm Institute, Brookline, Mass.**

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PFC-MNI

SPECIAL REPORT

Luxury Cars For 1995

By Julie Candler

Packed with high-tech electronics for performance and comfort, luxury cars for the coming year are arriving with yet another feature: modest or no hikes in prices. For those who remain sticker-shocked, there are some attractive leasing deals and some good buys in used luxury cars.

Under the sleek hoods and inside the designer dashboards of the new models, state-of-the-art microchips make possible some new anti-theft and safety features such as the "smart" keys (the car won't start without its programmed chip), improved traction control, and side-impact air bags.

As for amenities, some makers are providing ever-more-sophisticated remote controls that can activate home security systems as well as open garage doors. There are also more of those popular cup holders and automatic temperature settings for seats.

"The supply-demand picture on luxury cars favors the consumer," says David Bradley, a senior analyst with J.P. Morgan Securities Inc., in New York City. While the total car market is doing well, he says, luxury cars, those priced at $35,000 and above, aren't sharing in the good fortunes.

"This is a working man's [economic] recovery at this stage in the cycle, and smaller, cheaper cars are selling better," he adds. "Luxury cars were harder-hit by the recession, and recovery is slower, but I think sales will improve."

Indeed, sales of luxury and near-luxury cars are still rebounding from a decline that began in 1986, when they peaked at 1.6 million. By 1993, luxury-car sales had dropped to 1,081,000. AUTOFACTS International Inc., a West Chester, Pa., company that analyzes the auto industry, forecasts luxury-car sales of 1,126,000 this year and 1,208,000 in 1995.

The near-luxury segment of the industry—cars priced at $25,000 to $35,000—is doing better than it did in recent years. According to *Automotive News* magazine, sales of cars in the $25,000 to $31,000 range are up 12.3 percent so far in 1994 over sales for 1993.

Although sales of luxury cars in all price ranges have been flat overall this year, some European makes—BMW, Mercedes, Saab, and Volvo among them—were gainers. Audi (Volkswagen's upscale make) and Jaguar (now a Ford Motor Co. affiliate) have introduced 1995 models they are counting on for higher sales.



BUICK RIVIERA: A stylish derivative.

Prices for most 1995 luxury cars are expected to remain fairly steady, although some domestic models will cost more in 1995 than they did in 1994. For example, the price on the four-door Cadillac DeVille went up $2,000 for 1995, to $34,990, and the base Lincoln Town Car is $36,400, or $1,650 more than the same model in 1994. On the other hand, Mercedes-Benz is cutting prices on some of its flagship S-Class and SL-Class models an average of 1.9 percent.

The luxury-car market overall, however, is mixed.

European models did well in the first half of the 1994 model year because they are popular with young consumers who have discretionary income, says Susan Jacobs, president of Jacobs & Associates, an automotive forecasting firm in Rutherford, Pa.

At the same time, some U.S. models that are traditional favorites of older Americans have been suffering as those consumers worry about other costs, such as future health-care expenses, and shy away from taking on debt or the costs of leasing, Jacobs says. "They are less able to pay the higher prices," she notes.

Meanwhile, sales of Japanese models—although also appealing to younger consumers—are being hurt by the strength of the yen in relation to the dollar. As a result, Japanese makers are fighting back with inducements such as attractive leases. And sales of all luxury cars costing more than $32,000 are hurt to some extent by the 10 percent federal luxury tax on the portion of a car's price that exceeds that figure. Analysts say this tax not only has hurt sales of some $32,000-plus cars but has prompted some buyers to opt for sport-utility vehicles, most of which aren't subject to the tax.

Also discouraging luxury-car sales, some analysts say, are the new, higher top individual income tax rates enacted in 1993.

"We think top-tax-bracket increases have discouraged some buyers," says David Healy, auto analyst with S.G. Warburg & Co., an investment banking firm in New York City.

Nonetheless, the 1995 crop of luxury and near-luxury cars continues the tradition that buyers of these big-ticket items expect from them: a quiet ride, great power, subtle shifting, clean and economical operation, maximum comfort, many amenities—and, most of all, reliability.

And for 1995, automakers are putting an emphasis on the powertrain, the combination of the vehicle's engine and transmission that makes possible the performance that distinguishes luxury cars from the rest. Every year, through state-of-the-art microchip management, powertrains become more capable and reliable. The potent Northstar engine in luxury Cadillacs, for example, was the first to require no tune-up for 100,000 miles.

The microchip provides other electronic benefits. Forgetful drivers of 1995 Cadillacs, for instance, will be rescued by an anti-lockout feature that disables the driver-side power door lock if the key is left in the ignition with the engine off. Drivers of the BMW 740i/iL have 14-way front-seat adjustment, including four possible adjustments of the lumbar back-support system. The 1995 Lincoln Town Car is the first equipped with a heated-seat memory with five temperature settings.

Ignition keys on some upscale GM cars have a small electronic chip in their plastic

tops, uniquely programmed for a specific car or truck. Without it, the vehicle's electronic ignition system won't start. Instead of hot-wiring the ignition, car thieves would have to spend at least a half-hour removing and replacing electronic components.



ACURA LEGEND SEDAN LS: New colors.

For the first time, there will be side-impact air bags—standard on some 1995 Volvo models, optional on others. They're designed to inflate near the shoulder area of the driver and front-seat passenger to prevent the head from hitting the door or door pillar in a crash. The bags are mechanically triggered within 12 milliseconds.



AUDI A6: Front- or all-wheel drive.

Traction control on most luxury cars is operated electronically and can detect wheel spin on icy surfaces, activating a system that keeps the wheels turning but not spinning.

Convenience features are also advanced in the 1995 models, including consumer favorites such as cup holders (up to four in some models) and storage pockets.

Several manufacturers provide a special niche for a remote garage door opener that can be programmed for two or three garage doors, or in some instances, to turn on house lights or signal a home-security system.

Some of the new amenities go beyond the car itself. Roadside assistance is guaranteed with nearly every luxury and near-luxury car.

Pontiac Cares, for example, provides 24-hour roadside assistance and courtesy transportation whenever a car needs warranty work. Typically, it even applies if you run out of gas or lock your keys in your car. For free.

Mazda adds the services of a concierge who will reserve overnight lodging or make necessary travel arrangements for any motorist whose vehicle suffers a breakdown covered by the warranty.

Because most luxury cars retain their value far better than their less-expensive counterparts, the resale value of most luxury cars is excellent. Some foreign auto makers are supporting the worth of their used luxury cars by giving them good-as-new guarantees, some for as long as six years.

This report is in two parts, the first covering luxury cars priced at more than $35,000, the second on near-luxury cars selling at $25,000 to $35,000. Where 1995 prices had not been established at press time, 1994 prices are provided.

Standard equipment on nearly all of the cars includes dual air bags, anti-lock braking systems, traction control, all power accessories (steering, brakes, windows, door locks, and front-seat adjusters), a top-of-the-line audio system, and a theft-deterrent system.

Over $35,000

ACURA

Peppy and sporty, the front-wheel-drive Legend gets two new exterior colors for 1995: cayman white pearl and garnet red pearl. The price of the performance-oriented GS four-door sedan, with a 3.2-liter, 230-horsepower V-6 engine, is $40,700.



BMW 7-SERIES: "Hunkered down."

ALFA ROMEO

The 164 from Italy is a front-wheel-drive four-door sedan with a 3.0-liter, 24-valve V-6. For 1995, the 164 adds dual air bags, a new steering-wheel design, and new colors. The base price of the 164Q with horsepower that peaks at 230 is $37,690.



CADILLAC ELDORADO TOURING COUPE: Refined performance.

AUDI

This carmaker has introduced some name changes. The Audi 100 has been replaced with the new A6 luxury sedan, which will be available in sedan and wagon models as well as in front-wheel- or all-wheel-drive Quattro versions. There are changes also in the radiator grille, and the hood has been tapered inward.

(All-wheel drive is a full-time, four-wheel-drive system that puts most of the power in the front—or drive—wheels. It transfers the power balance between front and back wheels as road conditions change.)

The S4 becomes the S6, a high-performance sports sedan with Quattro all-wheel drive. It gets most of the exterior changes adapted for the A6. The Audi 100 models started at $35,120, and the S4's base price was $49,070.

In 1995, for the first time, Audi's Quattro all-wheel-drive system will be available as an option on entry-level vehicles as well as costlier models.

BMW

"Hunkered down" is how BMW describes the shape of its new 7-Series vehicles, which are 3 inches longer and have a lower front end. The new 740i is in showrooms now, and the new 740iL and 750iL, each with a wheelbase that is 5 inches longer, are due in January. All are available in standard and long wheelbases.

The vehicles are powered by BMW's 4.0-liter V8 engine (in the 740i and the 740iL) or the improved 5.4-liter V-12 (in the 750iL).

The vehicles' new features include a thicker window glass for quieter interiors, a passenger-side air bag that won't deploy if the seat is not occupied in a crash, and front-seat belts that adjust automatically as seats are adjusted.

Prices for the 7-Series have ranged from $55,950 for the 740i to $83,950 for the 750iL.

The sporty 5-Series "middle of the line" BMWs get 1995 refinements. For the first time, a 540i is available with a manual transmission—a six-speed. The 525i Sedan and 525i Touring come with upgraded option packages, new front-end styling, and passenger-side air bags that don't activate if the seat is empty. For 1994, the 525i Sedan's base price was $34,900.

The new BMW M3 two-plus-two (two bucket seats in front, a small bench seat for two in back) sports car is based on the well-received 325is Coupe. The peak output of the potent 240-horsepower M3 engine is 27 percent greater than that of the car's predecessor. Its 1995 base price is $36,800.



INFINITI Q45: Alloy wheels.

CADILLAC

The Eldorado and its upscale version, the Eldorado Touring Coupe (ETC), have a new front-grille design and a more rounded appearance.



JAGUAR XJR SEDAN: Smart, quick, quiet.

The ETC model is powered by an improved version of the Northstar 32-valve, 4.6-liter V-8 engine. With changes to the intake manifold, horsepower is now increased by 5, to 300. The horsepower also increases by 5, to 275, in the 1995 version of the standard Eldorado's 4.6-liter Northstar V-8.

Both coupes' stopping distance, handling, and ride have been refined with an integrated chassis-control system that includes improved brake and traction-control electronics, standard with all Northstar engines. The base Eldorado's price for 1995 is $38,220.

INFINITI

The four-door Q45, with a 1995 base price of $52,400, features alloy wheels and a choice of all-season or performance tires. The mid-level J30 four-door sedan, priced at $38,550 for 1995, gets a new tail-light design, automatic anti-glare rear-view mirrors, and power-adjustable lumbar support on the driver's seat.

JAGUAR

The restyled bodies of the new XJ Series sedans retain the distinctive appearance of this English import, in the first major new product launch since Jaguar's acquisition by Ford Motor Co. in 1989.

The re-engineered series includes the midsize XJ6 (base price, $51,750), the Vanden Plas ($59,400), the XJ12 ($73,200), and an all-new XJR sports car (no price yet).

The new XJ Series Sedans are the safest, smartest, quickest, and quietest that Jaguar has ever produced, the company says. New features include traction control, speed-sensitive steering, redesigned suspensions, anti-lock brakes, dual air bags, 12-way electric front seats, repositioned instruments, and revised controls.

Jaguar's traditional 6.0-liter V-12 engine adds extra performance to the XJ12, but the in-line six-cylinder engine is still offered as a more fuel-efficient alternative to the XJ12.

The XJS 4.0 coupe and convertible and the XJS 6.0 coupe and convertible now have more horsepower and acceleration as a result of revised hardware and electronics. Base price for the XJS is $51,950.

LEXUS

A more powerful second-generation LS 400 succeeds the four-door luxury sedan introduced in 1989, with 90 percent of the new vehicle's components all-new or significantly revised, Lexus says.



LEXUS LS 400: A new generation.

Its front grille has been revised, but the new car retains the Lexus look. It becomes the most aerodynamically engineered vehicle produced in North America, according to the manufacturer. Total interior room and leg room have been increased. With 200 pounds trimmed from overall weight, performance and agility are heightened, and fuel economy is improved. Redesign of the 32-valve, 4-liter V-8 engine increases horsepower by 10, to 260.

The base price on the LS 400 is $51,200.

An updated version of the SC 400 sport coupe with sportier styling front and rear, plus new alloy wheels, arrived in February. The base price is $47,500.



LINCOLN TOWN CAR: More memory.

LINCOLN

The Lincoln Town Car gets a new grille and front and rear restyling—and a better memory. The Town Car will have the industry's first heat-memory seats, with five temperature settings. And outside and rear-view mirror positions will change to conform to each driver's preferences when the seat memory button or the electronic key fob is activated.

The base Town Car's 1995 price is $36,400, up $1,650.

The Mark VIII will issue a 1995½ special model with no chrome on body sides or bumpers, high-intensity headlamps, specially tuned suspension, and a sportier rear-axle ratio. Base price for the 1995 Mark VIII is $38,800.

In December, Lincoln-Mercury will introduce its all-new Continental, to replace the present four-door luxury sedan.

MERCEDES-BENZ

The 1995 top-of-the-line S-class sedans have a softer, lower look with front grilles changed, lights redesigned, bumpers and lower body panels restyled, and trunk lids rounded. Some of the changes have also been made on the S-class coupe.

Base prices have been reduced by nearly $5,000 for the S350 turbodiesel and S320, making their 1995 price $65,900.

The S500 two-door V-8 goes from $99,800 in 1994 to $91,900 in 1995. The highest-priced Mercedes, the S600 two-door V-12, remains at its 1994 price of $133,000.



MERCEDES S-CLASS: A softer, lower look.

ROLLS-ROYCE

Despite its generous dimensions, the new Flying Spur four-door sedan can outpace many sports cars on the road today, claims Rolls-Royce. It's equipped with a 6.75-liter turbocharged V-8 engine that makes it the fastest Rolls-Royce ever built—zero to 60 mph in less than seven seconds. It's priced at $225,000, and only 50 of the hand-built limited-edition cars are being delivered in North America this year.

The Crewe, England, automaker is discontinuing manufacture of convertibles as an economy measure, but for four months beginning in August 1994, Rolls-Royce is producing a limited edition of 20 turbocharged Corniche S convertibles, exclusively for U.S. distribution. Like the Flying Spur, the Corniche S will have a 6.75-liter V-8 turbo engine, making it the fastest convertible ever made by Rolls-Royce. The 1994 Corniche IV convertible with a nonturbo engine was priced at $269,000.



ROLLS-ROYCE CORNICHE: Limited edition.

SAAB
The 9000 CDE four-door gets a new, aerodynamically refined



ALFA ROMEO 164: New steering-wheel design.

front end. Saab boasts it is one of the first car manufacturers to feature prestige Harman Kardon audio systems. (They're also in Jaguars.) Available with automatic transmission only and a standard 3.0-liter V-6, the 1995 vehicle's base price is $38,995.



BMW M3: A new two-plus-two.

$25,000 To $35,000

BMW
A new 3-Series three-door coupe known as the BMW Compact will be introduced in early 1995. It will be the least-expensive, entry-level BMW, and it will be powered by a 138-horsepower, 1.8-liter, four-cylinder engine, currently in the low-end 318i and 318is.

The car will be 9 inches shorter than the 318i sedan. There's no price yet.

BUICK
The flagship of the Buick line is the all-new Riviera, a two-door derivative of the well-received four-door Oldsmobile Aurora. This stylish luxury coupe has an oval grille opening similar to that on the Park Avenue and the LeSabre.

Buick's 205-horsepower 3800 Series II V-6 engine debuts with the new vehicle. Based on a well-seasoned engine that delivers V-8 power, it scores zero to 60 in 9.7 seconds. An optional 225-horsepower supercharged 3800 V-6 hits zero to 60 in 8.5 seconds.

Riviera's variable-assist steering provides high boost for ease of parking and minimum boost at highway speeds for improved road feel. Riviera seats six, or five with optional leather bucket seats.

Base price for the 1995 Riviera is $27,632, with the supercharged model at $29,357.

The new 3800 V-6 engine, the 3800 Series II, also becomes standard on the full-size Buick Park Avenue, and the supercharged version is standard on Park Avenue Ultra.

CHRYSLER
The top-of-the-line LHS and New Yorker sedans sport more-powerful headlights and a refined, electronically controlled automatic transmission. The front-drive vehicles are stretch versions of Chrysler's well-received new LH models with streamlined cab-forward design, bringing the front seats forward to add interior roominess. The models' prices have been $30,283 for the LHS and $25,541 for the New Yorker.

LEXUS
An updated version of the ES 300 ($31,200) went on sale in February. It has a revised front grille and new tail lamps, plus new and larger alloy wheels, for a sportier look.



CHRYSLER LHS: Top of the line.



MAZDA MILLENIA: All the extras.

MAZDA
The all-new 1995 Millenia, a handsome, five-passenger, four-door luxury sedan with cloth seats, debuted this past spring at a base price of $25,995. Along with a zippy 2.5-liter V-6 engine, it offers all the extras that luxury-car owners want: dual air bags, anti-theft alarm, four-wheel disc brakes, and power driver's seat.

Among the car's short list of options is a "4-Season Package" of climate controls, including heated front seats, electronic traction control, a compact-disc changer, and a Bose audio system.

A leather-equipped model ($28,895) and a Millenia S ($31,995) complete the lineup.

The Millenia S features a high-performance, 210-horsepower, 24-valve Miller-cycle V-6 engine, which produces an effect similar to a turbocharger and improves performance and fuel efficiency. While the engine is rated at 2.3 liters, Mazda claims its performance is equivalent to that of a 3.3-liter engine.

The Millenia has front-wheel drive, while another Mazda luxury car, the 929, has rear-wheel drive.

MITSUBISHI
The front-wheel-drive Diamante LS four-door (base price, $32,825) picks up four new colors for 1995, while the station wagon (base price, $25,850) shows off a new sound system.

The power behind both vehicles is a 3-liter V-6.

OLDSMOBILE
The 1995 Ninety-Eight, a full-size four-door sedan, is available in only one version, the Regency Elite, with the veteran V-6 engine re-engineered from top to bottom for long-lasting durability and improved performance (230 horsepower).

The engine has been renamed the 3800 Series II (3.8 liter) and is more fuel-efficient. A 275-horsepower, supercharged version of the same engine is an option. The 1994 Ninety-Eight lineup had Special Edition and Regency models, with a base price of $26,170.

Demand for the sporty Aurora exceeds supply since its introduction in May 1994 as a 1995 model, drawing praise from owners and auto-buff magazines. Its special Aurora 4-liter, 260-horsepower V-8 engine provides excellent response at the gas pedal. The base price is $31,370.

PONTIAC
The full-size Bonneville four-door sport sedan also upgrades its engines, replacing a 170-horsepower 3800 Series V-6 engine with a 205-horsepower 3800 Series II. It's standard on the SSEs, at $26,389 in 1995. A supercharged 3800 V-6 engine with 225 horse-



MITSUBISHI DIAMANTE LS: Colorful choices.



OLDSMOBILE REGENCY ELITE: V-6 durability.



PONTIAC BONNEVILLE: Upgraded engines.

power is available with the SLE package ($25,211) and SSEi ($27,556).

SAAB

Luxury touches are included in the new-for-1995 Swedish-built 900 S convertibles, arriving in October. They're built from the ground up as convertibles—unlike cars built as sedans and later made into convertibles through the lopping off of their tops.

Saab designed the new four-passenger convertible for all seasons. An inconspicuous "boot" hides the top when lowered, but pushing a button transforms the car into a weatherproof closed-top vehicle with a glass rear window and a protective inner layer of rubber.

The 1995 base price for the 900 S convertible with a 2.3-liter, four-cylinder engine is $32,995. A turbocharged version, the 900 SE, with a 16-valve, 2-liter turbo engine, is $39,520 for 1995. The 900 SE convertible with its first V-6 engine option, an all-new, 24-valve, 150-horsepower 2.5-liter, is $40,070 for 1995.

The all-new 900 three-door (two doors and a hatchback) is intended for the sports-coupe enthusiast and comes with a 150-horsepower, 2.3-liter four-cylinder engine in 1995 for $23,695.



SAAB 900 CONVERTIBLE: Four passengers, four seasons.

The turbocharged version with a 2-liter, 185-horsepower engine starts at $28,990 for 1995.

VOLVO

The 960 has been re-engineered from bumper to bumper; it retains the distinct Volvo look and grille design, but the grille, front lights, and fenders are lower and smoother, and some edges have been rounded.

Retuning of the 2.9-liter, in-line six-cylinder engine quickens acceleration but reduces horsepower to 181 from 201. It's available as a five-passenger, four-door sedan at a 1995 base price of $29,900 and as a wagon at $31,200.

Volvo is the first manufacturer to offer a side-impact air bag. The system will be standard on all of Volvo's 850 turbo models and an approximately $500 option on all other 850 models. Volvo expects to have the bags available on all models sold in the U.S. by 1996.

When any 1995 Volvo is started, its headlights come on and stay on—a feature expected to be added to other makers' cars in the coming years. NB



VOLVO 960 SEDAN: Re-engineered.

Small Company's New Golf Ball Flies Too Far; Could Obsolete Many Golf Courses

Pro Hits 400-Yard Tee Shots During Test Round

Want To Shoot An Eagle or Two ?

By Mike Hensen

YALESVILLE, CT – A small golf company in Connecticut has created a powerful, new ball that flies like a U-2, putts with the steady roll of a cue ball and bites the green on approach shots like a dropped cat. But don't look for it on weekend TV. Long-hitting pros could make a joke out of some of golf's finest courses with it. One pro who tested the ball drove it 400 yards, reaching the green on all but the longest par-fours. Scientific tests by an independent lab using a hitting machine prove the ball out-distances major brands dramatically.

The ball's extraordinary distance comes partly from a revolutionary new dimple design that keeps the ball aloft longer. But there's also a secret change in the core that makes it rise faster off the clubhead. Another change reduces air drag. The result is a ball that gains altitude quickly, then sails like a glider. None of the changes is noticeable in the ball itself.

Despite this extraordinary performance the company has a problem. A spokesman put it this way: "In golf you need endorsements and TV publicity. This is what gets you in the pro shops and stores where 95% of all golf products are sold. Unless the pros use your ball on TV, you're virtually locked out of these outlets. TV advertising is too expensive to buy on your own, at least for us.

"Now, you've seen how far this ball can fly. Can you imagine a pro using it on TV and eagle-ing par-fours? He would turn the course into a par-three, and real men don't play par-three's. This new fly-power forces us to sell it without relying on pros or pro-shops. One way is to sell it direct from our plant. That way we can keep the name printed on the ball a secret that only a buyer would know. There's more to golf than tournaments, you know."

The company guarantees a golfer a prompt refund if the new ball doesn't cut five to ten strokes off his or her average score. Simply return the balls–new or used–to the address below. "No one else would dare do that," boasted the company's director.

If you would like an eagle or two, here's your best chance yet. Write your name and address and "Code Name S" (the ball's R&D name) on a piece of paper and send it along with a check (or your credit card number and expiration date) to National Golf Center (Dept. S-698), 60 Church Street, Yalesville CT 06492. Or phone 800-285-3900 anytime. No P.O. boxes. One dozen "S" balls cost $24.95, two to five dozen are only $22.00 each, six dozen are only $109.00. You save $40.70 ordering six. Shipping and handling is only $3.50 no matter how large your order. Specify white or Hi-Vision yellow.

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ADVERTISEMENT

REGULATION

Sizing Up Metric Labeling Rules

Enforcement of new product-labeling requirements begins this month.

By Laura M. Litvan

Since the 1970s, efforts to coax Americans into embracing the metric system have only inched along, with the public adhering to the traditional system of feet, pounds, and quarts. But beginning this month, one aspect of metric conversion will leap forward.

On Nov. 8, federal regulators will start enforcing a requirement that product packages bear labels using the metric system, in addition to the customary system of weights and measures. The intent is to bring about uniformity with other nations.

The labeling requirement was included in the 1992 amendments to the Fair Packaging and Labeling Act of 1966. It applies to labels printed since Feb. 14, 1994, when the rules took effect. The requirement will be enforced by the U.S. Federal Trade Commission and the U.S. Food and Drug Administration. Enforcement was delayed because the FDA had not completed final rules.

Some groups have argued against imposing the metric requirement on companies that sell only in this country. "Companies that have been exporting have been making these changes for some time," says Seaver Leslie, director of Americans for Customary Weights and Measure, which opposes mandatory metric conversion. Leslie, whose group is based in Wiscasset, Maine, holds that it is unnecessary to include metric labeling, which he calls "a foreign language," on packages of goods sold domestically.

At Stewart Brothers Paint Co., which manufactures paint in Alliance, Ohio, managers view the new requirement as unnecessary for a product sold only in America. "We deal in gallons and quarts and pints," says Ronald Lyons, president of the 14-employee company. "We always have. It's easiest for us."

Stewart's managers are considering two options for metric compliance: reprogram the in-house computer system that generates the company's labels, or have workers stencil the metric measure onto every can of paint. Lyons said the former course could cost as much as $5,000, while the latter would be time-consuming.

Although the FTC and FDA are progressing on metric conversion, other federal agencies generally have been moving more slowly.

In January, the U.S. General Accounting Office released a report noting that agencies ranging from the Defense Department to the National Weather Service all have detailed conversion plans but are having difficulty carrying them out.

"We found that problems encountered by federal agencies frequently involved opposition from the private sector or the public," the watchdog agency said in the report. "Generally speaking, the more directly a proposed conversion affects the private sector or the public, the greater the resistance."



PHOTO: BRUCE ZAKE

Among business people *who oppose the new metric packaging rules is Ronald Lyons, president of Stewart Brothers Paint Co., in Alliance, Ohio.*

In July, the Federal Highway Administration postponed indefinitely its plans to require highway signs to be expressed in kilometers rather than miles because of overwhelming public and congressional opposition, much of it related to the cost to the localities of replacing highway signs. But some of the public opposition stemmed from reluctance to abandon the traditional system of weights and measures.

As originally amended by Congress in 1992, the Fair Packaging and Labeling Act would have required the metric system to be the primary means of specifying contents on packages, a rule that might have led many companies to make costly adjustments in package sizes. But intense lobbying, particularly by the Food Marketing Institute, a Washington organization representing food retailers and wholesalers, prompted Congress to lighten the impact on businesses.

Under the rules that will be enforced beginning this month, the system of weights and measures customarily used in America can still be the basis for the first measurements presented on a label, with the metric equivalents displayed second. Also, foods that are packaged at the retail level—such as deli items and produce—are exempt from the metric labeling rules.

Packaging experts say it is unlikely that companies will make major alterations to packages, in-store display cases, packaging equipment, in-store scales, or other aspects of their businesses or products.

The maximum federal penalty for companies that don't include metric measurements on their labels is a $10,000 fine. But state regulators have the authority to remove a product from store shelves if there isn't compliance.

Federal officials say the first course of action by the Federal Trade Commission and the Food and Drug Administration in cases of noncompliance is likely to be a letter of warning. Tougher enforcement measures probably will be reserved for firms that ultimately refuse to alter their labels as required. NB



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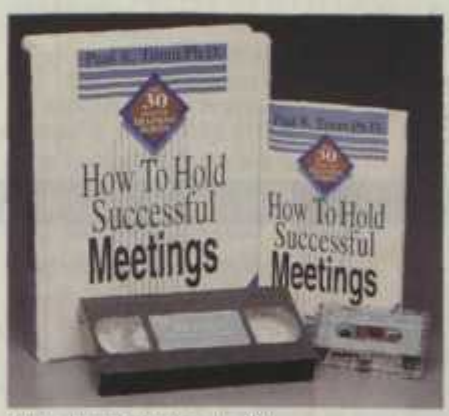
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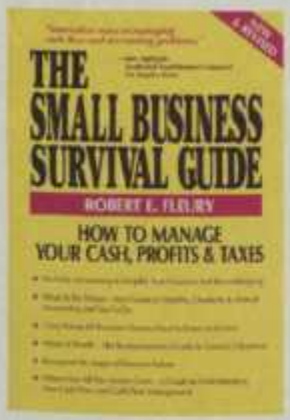


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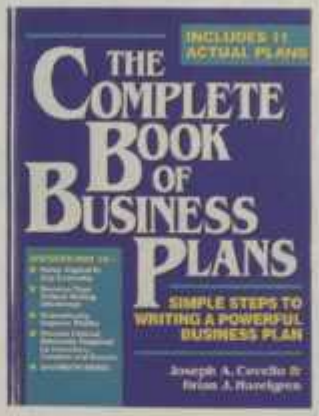
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	Finance for Nonfinancial Professionals	$249.95	$6.00	
	Up Your Cash Flow ☐ DOS 5-1/4 ☐ 3-1/2	$89.95	$6.00	
	Cash Flow Problem Solver	$12.95	$4.00	
	Financing Sources Databank ☐ DOS 5-1/4 ☐ 3-1/2	$139.00	$6.00	
	BizPlanBuilder ☐ DOS 5-1/4 ☐ 3-1/2 ☐ Windows 3-1/2 ☐ MAC	$99.00	$6.00	
	Guide to Small Business Accounting Software ☐ DOS 5-1/4 ☐ 3-1/2	$99.95	$6.00	
	Employee Appraiser ☐ Windows 3-1/2	$99.95	$6.00	
	LETTERWORKS/READYWORKS SOFTWARE:			
	Sales ☐ DOS 5-1/4 ☐ 3-1/2 ☐ WINDOWS 3-1/2 ☐ MAC	$79.95	$6.00	
	Legal ☐ DOS 5-1/4 ☐ 3-1/2 ☐ WINDOWS 3-1/2 ☐ MAC	$79.95	$6.00	

QTY	NAME OF PRODUCT	UNIT PRICE	S/H COST	TOTAL PRICE
	Business ☐ DOS 5-1/4 ☐ 3-1/2 ☐ WINDOWS 3-1/2 ☐ MAC	$79.95	$6.00	
	Personnel ☐ DOS 5-1/4 ☐ 3-1/2 ☐ WINDOWS 3-1/2 ☐ MAC	$119.95	$6.00	
	The Power of Customer Service	$99.95	$6.00	
	50 Ways to Keep Your Customers	$99.95	$6.00	
	How to Make Winning Presentations	$99.95	$6.00	
	How to Hold Successful Meetings	$99.95	$6.00	
	How Buyers Like to be Sold	$179.95	$6.00	
	Small Business Survival Guide	$29.95	$4.00	
	Complete Book of Business Plans	$29.95	$4.00	
	SUBTOTAL			
	CA & D.C. SALES TAX			
	TOTAL			

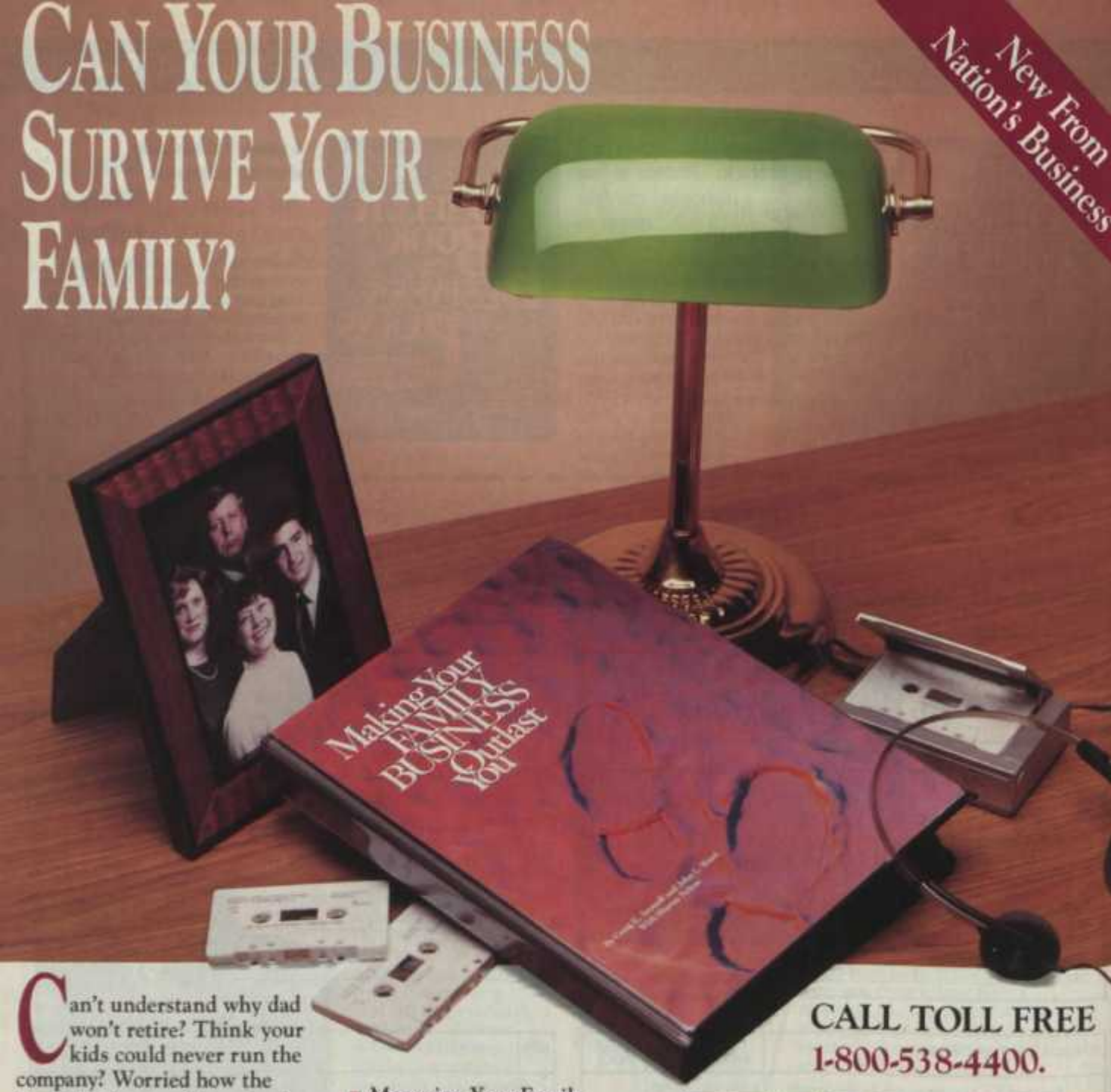
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Stocks Could Be Due For A Rise

By Randy Myers

Inflation fears stalk Wall Street, restraining bond prices. Stocks are high by a number of traditional measures. Corporate earnings are strong, but the Federal Reserve Board is expected to engineer still more hikes in short-term interest rates soon, and that, if overdone, could cripple the country's economic expansion and with it corporate profits. All in all, it would seem a dangerous time to buy stocks and bonds.

But perhaps not. While bearish sentiment is high right now, the perverse history of the stock market shows that neither bullish nor bearish views necessarily predict market performance. More than 60 percent of the investment advisers surveyed by *Investors Intelligence*, a biweekly newsletter in New Rochelle, N.Y., described themselves as bullish in October 1987, just before the Dow Jones Industrial Average plunged 508 points in one day.

Similarly, nearly 53 percent of surveyed advisers described themselves as bears just one week into this year's third quarter, and the stock market promptly proved the majority wrong again. The average broad-based domestic-stock mutual fund surged 5.77 percent in the third quarter, according to Lipper Analytical Services Inc. And mutual funds in a number of specific market sectors did even better. (See the chart at right.)

The average domestic stock fund was still down 0.45 percent for the year early in the fourth quarter, and nearly 51 percent of surveyed investment advisers were still bearish.

Hugh Johnson, chief investment officer for First Albany Corp., in Albany, N.Y., concedes that the hurdles facing the stock market are formidable. He notes that November marks the 50th month of a bull run, and that is long indeed by historical standards. But he isn't convinced that the market won't find a way to overcome pessimism as it did in the third quarter.

What could sustain a climb? For one thing, the Fed might actually succeed where it has failed in the past, engineering an elusive "soft landing" that would allow the economy to ease from its current high rate of growth (gross domestic product was up 4.1 percent in the second quarter) to one that is slower but sustainable over the long term.

Also, early signs that the rest of the globe's major economies are rebounding, from Europe to Japan to Latin America, could prove accurate, ensuring continued strong U.S. corporate profits thanks to increasing exports.

Still not convinced? Well, some market pundits note that stocks seldom fall in the third year of a president's term, which for President Clinton will be 1995.

If all that sounds dicey, the outlook for the bond market may be worse. While the average taxable bond fund (fixed income) tracked by Lipper Analytical rose 0.4 percent in the third quarter, it was still down 2.58 percent for the 12 months ended Sept. 30. Convertible bond funds, which buy bonds exchangeable for stock, posted an average return of 3.1 percent, but they aren't expected to repeat that performance this quarter unless stocks rally.

Meanwhile, investors figure that with the Fed still nudging short-term rates higher, any meaningful bond market advance will have to await the arrival of anti-inflationary data such as declining prices for industrial materials and higher deliveries of goods. None of this was evident at

Randy Myers is a free-lance writer in Dover, Pa.

Performance By Mutual Fund Category

With Dividends Reinvested Through Sept. 30

Type Of Fund	3rd Quarter	Year To Date	Five Years
	(Figures Are Percentages)		
GENERAL STOCK FUNDS			
Capital-appreciation funds	6.39	-1.82	55.10
Growth funds	5.39	-0.84	53.28
Midsize-company funds	8.10	-1.21	76.34
Small-company growth funds	8.53	-0.55	71.52
Growth and income funds	4.28	0.58	52.00
S&P 500 Index objective funds	4.73	0.94	50.76
Equity income funds	3.90	0.02	46.42
General Stock Funds Average	5.77	-0.45	55.70
SPECIALTY STOCK FUNDS			
Health/biotechnology funds	14.03	5.24	108.92
Natural-resources funds	4.13	3.27	31.04
Environmental funds	4.95	-5.88	11.05
Science and technology funds	13.60	7.09	111.45
Specialty/miscellaneous funds	6.03	1.48	67.36
Utility funds	1.92	-8.22	46.29
Financial-services funds	0.41	3.23	99.61
Real-estate funds	-1.16	-1.70	41.81
WORLD STOCK FUNDS			
Gold-oriented funds	15.35	2.32	34.01
Global funds	5.44	1.67	43.96
Global small-company funds	6.38	1.08	54.62
International funds	3.26	3.23	43.00
International small co. funds	2.37	1.25	42.46
European region funds	2.87	1.81	29.92
Pacific region funds	6.68	3.82	54.75
Emerging-markets funds	16.77	3.83	96.32
Japanese funds	-6.52	19.52	-10.58
Latin American funds	29.00	11.38	NA
Canadian funds	5.20	-2.31	21.42
World Stock Funds Average	6.29	2.36	40.55
All Stock Funds Average	5.80	0.08	54.79
BOND FUNDS			
Flexible portfolio funds	2.79	-1.67	51.01
Global flexible portfolio funds	3.08	-1.79	43.05
Balanced funds	3.03	-1.51	49.04
Balanced-target maturity funds	2.44	-4.54	47.68
Convertible-securities funds	3.07	-1.04	59.11
Income funds	2.11	-1.42	51.16
World income funds	1.76	-4.29	49.71
Fixed income funds	0.40	-3.05	45.54
Average Of Taxable Stock And Bond Funds	3.70	-1.23	51.55

SOURCE: LIPPER ANALYTICAL SERVICES INC.

the beginning of the fourth quarter.

And yet, contrarians retain hope. They note that the broad and sometimes sharp declines registered by the bond market over the past year suggest the worst damage there may be done, especially if the Fed is successful but not overly zealous in its fight against inflation. And Treasury bond yields, now above 7 percent for maturities as short as five years, may be looking attractive to some battered stock investors.

"We have a bullish outlook over the long term," says Tom Carpenter, chief economist for ASB Capital Management, in Washington, D.C. "Two to three years down the road, when this interest-rate cycle and inflation cycle come to an end, we're going to have inflation rates, and therefore interest rates, lower than the lowest levels we saw in 1993. At some point in here, things will get volatile, but on balance the overall post-Cold War global capital and economic environment represents a new world, a world that's full of opportunity."

Carpenter's reference to a new world is apropos. While the U.S. stock market did well in the third quarter, mutual funds invested in Latin American equities did much better, posting an average total return of 29 percent after suffering a weak spring and summer, according to Lipper Analytical. Some of the biggest gains came from Brazil, where stocks were up about 80 percent through the first nine months of the year. The reason: a stabilizing political scene and the decline of inflation to approximately 5 percent a month from 60 percent.

Again, though, it's probably not smart to expect history to repeat itself right away and go overboard with Latin American stocks. To see how volatile foreign markets can be, look at Japanese mutual funds, which boast the best year-to-date record among Lipper's mutual-fund categories, with an average total gain of 19.5 percent, but which turned in the worst performance during the third quarter, losing 6.5 percent.

Typical advice from the pros right now: Put about 15 to 30 percent of your portfolio outside the U.S., but do it in a geographically diversified manner.

Domestically, the first question stock investors must answer for themselves is whether they think the economy will flourish or founder under the Fed's program of interest-rate hikes. Johnson, who's bullish, likes three sectors of the stock market now: basic materials (paper, aluminum, chemical, and steel firms), science and technology (computer and computer-related companies), and consumer noncyclicals (drug, food, and household-products concerns).

Sectors that Johnson is avoiding include financial stocks (he says rising interest rates are squeezing bank profits), consumer cyclicals (he worries that heavy discretionary spending by consumers may be on the wane), industrials (stock prices have gone up too far too fast, he fears), and the traditional safe haven of utilities (where he thinks it takes an exceptionally keen eye to ferret out the winners right now).

As the chart above shows, much of the financial sector declined in the third quarter; electric utilities showed modest gains; and several consumer cyclical segments such as hotels/motels/restaurants, recreation, and retail department stores either were up fractionally or posted losses. Industrials actually performed quite well, judging by the 6.2 percent advance of the Standard & Poor's Industrial Index.

Unlike Johnson, Carpenter sees great opportunity in utilities. While many investors worry that the industry is headed for massive deregulation and consolidation, Carpenter's firm is busy trying to identify those that will survive.

Investors uncomfortable with such conflicting viewpoints and, more important, unwilling right now to fight the bears may be tempted to seek safety in gold, which late in the third quarter broke the $400-an-ounce barrier in the futures market for the first time in over a year.

"Stay in gold, if only because it's fun and a good hedge against inflation if I'm wrong," quips Johnson. "But keep your exposure very modest [no more than 5 percent of your portfolio] because the deep pressures are still for economic expansions that don't last too long and inflation that doesn't get too high."

Johnson also recommends buying stocks of gold-mining companies, which can be purchased and sold easily, rather than the metal itself.

Other conservative investors may want to look at money-market mutual funds, where third-quarter yields broke above 4 percent in many cases and in some cases above 5 percent. That's no match for the historical returns from stocks and bonds, but it does exceed current rates of inflation and, for the moment anyway, the returns that many investors have been getting elsewhere. ■

Stock Performance In The Third Quarter

Industry Group	Change in Value July 1 To Sept. 30 (Figures Are Percentages)
Chemicals	18.9
Health	17.1
Metals—rare	15.7
Tobacco	15.6
Metals—nonferrous, coal	15.6
Paper, packaging	15.4
Metals—iron, steel	14.6
Food—confections	13.5
Business data processing	13.0
Food production	12.8
Drug manufacturers	11.5
Recreation—broadcasting	11.0
Building—heavy	10.9
Food—packaged goods	10.5
Food—meats, dairy	8.4
Cosmetics—personal	8.3
NASDAQ Index	8.3
AMEX Index	8.2
Personal services	7.7
Building	7.6
Machinery—light equipment	6.9
Machinery—heavy	6.7
Oil, natural-gas production	6.3
Retail—miscellaneous	6.3
Recreation—luxury	6.2
S&P Industrial Index	6.2
Dow Jones Industrial Average	6.0
Publishing	6.0
Shoes, leather	5.9
Precision instruments	5.3
Media General Stock Index	5.0
Retail—food stores	4.4
NYSE Index	4.2
S&P 500 Index	4.1

Industry Group	Change in Value July 1 To Sept. 30 (Figures Are Percentages)
Business services	3.9
Savings and loans	3.2
Business equipment	3.0
Multi-industry	3.0
Oil, refining, marketing	2.9
Communications	2.9
Electrical equipment	2.3
Utilities—gas, other	2.3
Retail—discount, drugs	2.2
Electronics	2.2
Hotels, motels, restaurants	2.2
Rubber, plastic	2.0
Textile manufacturing	1.8
Utilities—electric	1.4
Real estate	1.4
Aerospace	0.7
Investments	0.6
Textiles—apparel	0.4
Credit	0.4
Oil, natural-gas services	0.2
Insurance	-0.2
Recreation—movies, sports	-0.4
Banking	-0.5
Retail—department stores	-0.6
Housewares, furnishings	-0.9
Freight, shipping	-1.2
Airlines	-1.3
Distillers—brewers	-2.1
Railroads	-2.7
Metals fabrication	-3.0
Retail—apparel	-4.0
Automotive	-4.6
Real-estate investing	-4.8

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

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TAXES

The IRS Is On The Trail Of Unreported Tips

The Internal Revenue Service is trying to get restaurants to sign voluntarily a controversial agreement that would require them to calculate and report employees' tip income. Currently, individuals are responsible for reporting such income to the IRS.

"What has restaurant and bar managers upset is the carrot-and-stick approach the IRS appears to be using," says Greg Burke, a certified public accountant with the John Waddell Co., a Sacramento, Calif., firm that represents several restaurants.

If you sign the agreement and persuade at least 75 percent of your employees to go along with reporting their tips according to a tip-to-sales formula, the IRS says, your company won't be exposed to tip-income audits. "If an establishment doesn't sign the agreement," says Marshall V. Washburn, the IRS's director of specialty taxes, "it will be more exposed to an audit because there could be a greater likelihood of noncompliance."

An audit could be devastating. "A whole lot of back taxes could be collected," says accountant Burke, "including FICA, the Medicare tax, unemployment tax, income tax, and some state taxes."

Moreover, when the IRS conducts restaurant audits, it reviews returns of the employees as well.

"They're forcing me to join them," says Paula Kreuzburg, owner of Mrs. K's Toll House, a restaurant in Silver Spring, Md., "and I want to run my own business, not work for the IRS."



PHOTO: T. MICHAEL KEZA

Paula Kreuzburg, *owner of Mrs. K's Toll House restaurant in Silver Spring, Md., strongly objects to the IRS tip-reporting program.*

"What they're trying to do is outrageous," says Katy McGregor, legislative representative with the Washington-based National Restaurant Association.

Restaurant owners are writing to their members of Congress, asking the lawmakers to put pressure on the IRS to back off with the carrot-and-stick deals; no legislation on the subject has been introduced in Congress.

If you are approached by the IRS, should you sign the agreement or not? "Meet with your accountant," says Burke, "to calculate just how much your employees may be underreporting tip income (using the IRS's tip-to-sales formula). If you think you could have a nasty audit problem, then you sign. "But if you do," he adds, "you'll have to face the fact that some of your employees might quit rather than have their tip income exposed."

The IRS started offering its "Tip Rate Determination Agreements" to restaurants in Phoenix in late 1991, and the program has now spread nationwide. So far, only about 200 establishments have signed up, in large part because of the National Restaurant Association's vigorous opposition.

—Peter Weaver

REAL ESTATE

Renegotiate Your Lease Before Rates Go Up

Real-estate values have fallen dramatically over the past several years, and so have commercial lease rates. As a result, now may be a good time to renegotiate your lease to cut your costs.

But don't wait too long to decide. Rates that dropped 20 to 40 percent during the early 1990s are creeping back up in places like Washington, D.C., midtown Manhattan, Denver, and Atlanta, according to Real Estate Research Corp., in Chicago. But lease rates are still in the doldrums in Midwestern cities.

Renegotiating a lease before it expires requires a change in habit for most small and medium-sized companies. They typically don't seek changes until a lease is up.



ILLUSTRATION: DAVID MACAREN—ILLUSTRATION SOURCE, INC.

"It is time to rethink this strategy, as both the landlord and tenant can reap significant benefits by renegotiating a lease well before the expiration of the term," says Leland Reicher, a real-estate attorney with Reish & Luftman, a law firm in Los Angeles.

Reicher suggests this approach: Negotiate a new lease agreement under which the landlord immediately lowers the rental rate and the tenant agrees to stay longer than the current lease requires. The tenant thereby starts saving right away, and the landlord extends a relationship with a tenant who might otherwise have moved when the lease expired.

When renegotiating your lease, consider signing for 10 to 15 years to beat projected rent inflation through the year 2000, says Mike Bishop, vice president of Tanguay-Burke-Stratton Comprehensive Real Estate Services, a Chicago firm that represents tenants only.

—Lisa Holton

Lisa Holton is special-sections editor at the Chicago Sun-Times.

HOME BUSINESS

To Deduct, Or Not To Deduct . . .

If you lost your home-office deduction because of the Supreme Court's 1993 decision in a case on the subject, relief may be on the way—although it may come slowly. Legislation that would restore the deduction for many home-based professionals stalled this year in Congress, but it is almost certain to be introduced again next year.

Before the court's decision, expenses of a home office were generally deductible if (1) the office was used regularly and exclusively, either as the owner's principal place of business or as a place for meeting with clients or customers in the normal course of business, and (2) the business generated enough income to cover the deductions.



ILLUSTRATION: SCHUYLER CARRUZZA—STOCK ILLUSTRATION SOURCE, INC.

But the requirement that the home office be the taxpayer's principal place of business has proven to be the most difficult. In its January 1993 decision in *Commissioner vs. Soliman*, the court held that an anesthesiologist who worked in three hospitals but used his bedroom as a home office to make telephone calls to patients and other doctors and to keep his records could not treat his home office as his principal place of business because it was not the most important location.

The Supreme Court's determination was based on two primary considerations: the relative importance of the activities performed at each location and the amount of time spent at each.

The Internal Revenue Service, in interpreting the decision, says that it will first apply the "relative importance" test, comparing the activities performed at each business location to determine a taxpayer's principal place of business.

If that test provides no clear answer, the IRS will then look to the "time spent" test.

These new tests add considerable confusion and impose additional paperwork burdens on business owners. More important, though, they will severely curtail the home-office deduction. Consider the following example given by the IRS:

A self-employed plumber spends about 40 hours a week at various job sites and about 10 hours in a home office arranging appointments and dealing with suppliers. The IRS says that the plumber's work at his home office, although essential, is less important and takes less time than his service calls to customers. Therefore, the home office is not a principal place of business, and the plumber cannot deduct home-office expenses.

The legislation introduced this year by Sen. Orrin G. Hatch, R-Utah, and Rep. Peter Hoagland, D-Neb., would ease the "principal place of business" test (which in effect encompasses the IRS's "relative importance" and "time spent" tests). Essentially, their legislation would allow a deduction if the portion of the house is (1) used exclusively for business; (2) used on a regular basis; (3) used to perform tasks not easily performed elsewhere; and (4) is essential to the taxpayer's business.

The protracted debate over health-care reform bumped the legislation from committee agendas this year, but sponsors say they will try again in 1995. The proposal has broad support from professional organizations.

—Albert B. Ellentuck

INSURANCE

Doing Consulting? Protect Thyself

A substantial number of middle managers who lost their jobs in corporate cutbacks have gone into business as consultants. If you are new to this field, it is critical that you recognize one of the basic risks: You can be sued for giving bad advice on almost anything.

But there is a form of insurance that can protect you. It's called errors and omissions coverage (E&O).

For example, E&O can shield an environmental consultant from clients when it's discovered that there actually were leaking underground storage tanks on the property that the consultant said was ready for development.

It could have helped a consultant who was sued by a large retailer when a computerized bar-coding system recommended by the consultant flopped. On the other hand, a printer's E&O policy covered costs of reprinting a corporation's annual report after the customer rejected the first version because of a serious typographical error.

Almost anyone who claims to be an expert in a field is vulnerable, says insurance agent Ricard Jorgensen, who owns Jorgensen & Co., in Englewood, N.J. Says John Moore, a sales agent at Shand Morahan, in Evanston, Ill., a major supplier of E&O coverage: "Every year, we sell more and more of it."

Major E&O providers, in addition to Shand Morahan, include Reliance National, American International Group, and Zurich American, all in New York City.

Purchasers should be aware of two caveats, however, about E&O insurance:

■ It can be expensive, compared with basic commercial general-liability coverage, which pays damages for personal injury or property damage to a third party. The typical annual premium, says Morahan's Moore, averages $20,000 for businesses in high-risk occupations. But annual premiums can fall below $1,000 for those in low-risk fields.

annual report after the customer rejected the fisst version because of a serious typographical error.

■ It may be unnecessary. Think about whether you should buy it at all. Says Jorgensen: "It's strongly advisable to have the coverage, but, like all insurance, it's a last defense."

—John S. DeMott

Direct Line

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I run a small retail store and need information on what is required under the Americans with Disabilities Act.
F.U., Charleston, W.Va.

There are several resources that can help small-business owners make their businesses more accessible to people with disabilities.



ILLUSTRATIONS: MARTHA HELLIGAR

What Businesses Must Know About the Americans with Disabilities Act, published by the U.S. Chamber of Commerce, covers all aspects of the law. The price is $14 per copy plus $1.95 postage for U.S. Chamber members, $21 plus $2.95 postage for nonmembers.

To order, write Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. To pay with a credit card, call 1-800-638-7582 (in Maryland, 1-800-352-1450). Be sure to mention publication No. 0230.

The President's Committee on Employment of People with Disabilities offers technical help and management consulting on the subject. Write to the committee at 1111 20th St., N.W., Suite 636, Washington, D.C. 20236.

The Job Accommodation Network, a service of the president's committee, offers free consulting for employers who face specific situations in accommodating people with disabilities in the workplace. Technical experts are on hand to counsel small businesses. Call the network's hot line at 1-800-526-7234.

For information on hiring procedures under the disabilities law (also called the ADA), try *Effective Hiring and ADA Compliance* (AMACOM), written by Arlene Vernon-Oehmke, whose human-resources consulting business specializes in ADA education and training. The book covers the full hiring process under the ADA: preparing job descriptions, advertising openings, interviewing candidates, and making a final selection.

Priced at $49.95 plus $4.75 for shipping and handling, the book may be ordered from AMACOM, 1-800-262-9699. Refer to ISBN No. 0-8144-0246-1. ■

MARKETING

Tips To Grow On

I have read several books on marketing to try to get some simple ideas that might work for my small business, but I haven't found many. Is there anything available that would give me some down-to-earth tips on marketing?
S.B., Garland, Texas

A book written and published by Barbara Leff, *123 Great Marketing Ideas to Grow Your Business*, has a list of practical suggestions for small-business owners who want help with marketing.

"You want to reach your prospects in numerous ways because people respond to various media differently," says Leff, a marketing professional in Chicago. "You also want to choose your marketing strategies according to your individuality—personally and professionally."

Priced at $5, the booklet covers market research, an improved company image, business cards, advertising, trade shows, and public speaking.

To order, send $5 and a self-addressed, double-stamped (58 cents) envelope to The Marketing Menu, 70 W. Burton, Suite 1804, Chicago, Ill. 60610. To speak with Barbara Leff, call (312) 604-1620. ■

SPECIALTY RETAILING

Coffee Talk

I am interested in opening a specialty coffee store. Where can I go for more information?
W.T., Dayton, Ohio

The Specialty Coffee Association of America, located in Long Beach, Calif., offers a wide range of helpful services for the would-be gourmet-coffee-shop owner. Members of the group include coffee roasters, retailers, distributors, and others involved in the quality-coffee industry.

The association offers brochures at various prices on what is involved in opening a retail store, a restaurant, or a combination of the two.

Covered are topics such as locating distributors, finding capital, choosing a location, and promoting and marketing the product.

The association also offers seminars.

For more information, write or call the Specialty Coffee Association of America for a free publications list at One World Trade Center, Suite 800, Long Beach, Calif. 90831-0800; (310) 983-8090. ■



HOUSING

Senior Years

I need information on what is involved in opening a full-fledged retirement home.
K.Y., Madison, S.D.

The National Association for Senior Living Industries offers information on a range of senior-living arrangements. The organization is a network of groups, professionals, and private individuals involved in meeting the shelter, health, services, and consumer-product needs of older people.

The association's research department provides information on how to reach architects, lawyers, financial planners, nutritionists, psychotherapists, and health-care professionals who specialize in the needs of the elderly. Numerous publications on the subject are available through the organization. Prices vary.

Write or call the National Association for Senior Living Industries at 184 Duke of Gloucester St., Annapolis, Md. 21401-2523; (410) 263-0991. ■

HOME-BASED BUSINESS

Connected Cottages

I run a small gift-basket business out of my home. I am interested in joining a group that represents cottage industries like mine. Any suggestions?
T. C., Rupert, Idaho

The National Association for the Cottage Industry represents more than 14,000 individuals who own home-based businesses or who work at flexible or remote work sites. The group recently concluded surveys on home-based businesses and will conduct a briefing on its findings in November in Chicago.

The association also publishes a quarterly newsletter, *Small Office/Home Office Journal*. For information on the price and to order, write or call CoraLee Smith Kern, the association's executive director, at the National Association for the Cottage Industry, Box 14850, Chicago, Ill. 60614; (312) 472-8116. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space. NB

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1. Sales through dealers and carriers, street vendors, and counter sales (not mailed)	3,969	3,686
2.Paid or requested mail subscriptions (includes advertisers' proof copies/exchange copies)	862,232	865,829
C. Total Paid and/or Requested Circulation (sum of 15B1 and 15B2)	869,041	869,514
D. Free Distribution by Mail (samples, complimentary, and other free)	4,307	4,241
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F. Total Free Distribution	8,314	12,271
G. Total Distribution (sum of 15C and 15F)	877,355	881,785
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1. Office use, leftovers, spoiled.	4,784	4,780
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I. Total (sum of 15G, 15H1, and 15H2)	897,466	900,263
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Free-Spirited Enterprise

By Janet L. Willen

The Tools Of The Trade

Workers don't have to rush to the supply room every time they need a drill bit or a light bulb, and they don't have to carry a full tool kit to be prepared. If you place Automatic Supply Depots in strategic locations throughout your plant, workers can get the tools or supplies they need,



when they need them, and where they need them.

The computerized depot, from **Vertex Technologies**, in Cincinnati, is a cross between an automatic teller machine and a vending machine. A worker inserts an identification card, enters a cost center and a project number, and then selects items from the dispensing machine.

The basic machine holds up to 70 different small items, such as drill bits, batteries, and safety glasses, in rotating trays of bins like those in a snack machine.

The auxiliary model holds larger items, such as power tools and small computers, in robotic bins that measure 9 inches deep, 10 to 18 inches wide, and 3½ inches high. Workers can return items to these bins.

Through electronic links with other computer systems, the machine can track who used the items as well as when and how long they were used. Its reporting function can also update inventory, accounting, and purchasing records.

The machine costs about $30,000. For more information, call 1-800-249-4933.

Cash And Carry-All

Rolfs, of West Bend, Wis., wants men to empty their pockets. It suggests they put their wallets, combs, keys, cellular phones, pagers, and calculators into one of the company's three leather handbags for men: the Euro Bag, the Belt Bag, or the Hide-Away.

The bags measure about 5 by 8 inches, have compartments for cellular phones and other high-tech equipment, and come with wrist straps and loops to attach to belts. The bags are priced from $30 to $75 and are available in black, light brown, and rusty brown.

Men's handbags are available at major department stores and specialty stores. For more information, call 1-800-762-4287.



Up Against The Wall

In the well-designed office, nothing is overlooked—not even electrical plugs.



Paige Innovations, of King City, Ontario, says plugs should be unobtrusive and chic as well as safe. The company's new FlatPlug is an octagonal, quarter-inch-thick AC plug. The cord is set into the plug at an angle, and both lie flush against the wall.

A metal safety ring provides a handle for removing or inserting the plug.

For extra safety and style, the company's CoverUp keeps the FlatPlug out of sight. The CoverUp consists of a wall plate and a snap-on cover designed to fit over the FlatPlug or over an unused outlet.

The FlatPlug is available with two or three prongs; cord lengths range from 6 to 13 feet. It costs from $3.99 to $9.99. The CoverUp costs $2.99 or $3.99 depending on the style of the wall plate. Both are available in beige or white.

The FlatPlug can be designed to fit manufacturers' specifications for appliances. For more information, call (905) 833-0983.

Dripping In Black Gold

Another new plug comes from **Advanced Results Co. Inc.**, of Santa Clara, Calif. It's designed to drain the last drop of engine oil from your car or other vehicle.

Advanced Result's Power Drain System consists of a drain plug for the oil pan, an adapter, and an air-operated suction pump. Once the plug is installed, it doesn't have to be removed again.



When it's time to drain the oil, connect the adapter and suction pump to the plug, and the oil and sludge drain through a tube in less than two minutes, the company says. Oil-change services can connect the system to waste-oil tanks so that workers don't have to be exposed to the oil.

The Power Drain System kit costs about $35 depending on the size of the plug. Special arrangements can be made for service centers, dealerships, and other business clients. For more information, call 1-800-272-9898.



Bottom Of The Bottle

You don't have to put your containers through a balancing act to get the last little bit out of bottles of shampoo, lotion, gel, and conditioner.

The Final Drop Dispensing Cap, from **Wise Choice Products**, of Orange, Calif., is designed for easy dripping.

Just attach the cap to the opening and turn the container upside down. The wide-based cap supports the container and lets the liquid, cream, or lotion drip down.

Cost: $9.99 for three caps, plus $2.50 for shipping and handling. For more information, call (714) 538-8678. NB

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On The 103rd Congress



PHOTO: MICHAEL KEZA

Background: The 103rd Congress adjourned in October after delaying consideration of major trade legislation until a lame-duck session in November. The legislation would implement the General Agreement on Tariffs and Trade accord. The 103rd Congress approved several significant measures, however, and defeated or deferred action on others. These questions seek your views on some of those major actions.

Results of this poll will be forwarded to administration and congressional officials. Send the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

1 What is your reaction to the decision to delay action on health-care-reform legislation?

1. Mostly positive
2. Mostly negative
3. No opinion

2 What is your reaction to the 1993 passage of a budget bill aimed at reducing the deficit with substantial tax increases?

1. Mostly positive
2. Mostly negative
3. No opinion

3 What is your view of the new law allowing banks to operate in more than one state without having to set up separate corporate entities to do so?

1. Mostly positive
2. Mostly negative
3. No opinion

4 What is your assessment of the new crime law, which provides for more police, more prisons, and more money for social programs designed to prevent crime?

1. Too heavy on social programs and too light on punitive actions
2. Too light on social programs and too heavy on punitive actions
3. Proper mix of both approaches

5 What is your opinion of the Family and Medical Leave Act, which requires employers to provide up to 12 weeks of unpaid leave for the illness of the worker or a close family relative or for the birth or adoption of a child?

1. Mostly positive
2. Mostly negative
3. No opinion

6 Congress killed a campaign-finance bill that would have provided taxpayer subsidies to candidates who agreed to spending limits for congressional campaigns. What is your view of this aspect of the bill?

1. Mostly positive
2. Mostly negative
3. No opinion

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POLL RESULTS

Readers' Views On Clinton, Congress

Opposition to President Clinton's policies and to congressional incumbents will be the keys in determining business people's choices in the midterm elections Nov. 8, according to a poll of *Nation's Business* readers. Thirty-six governors, 35 senators, and all 435 House members will be chosen in the voting.

In House races, Democrats are defending 256 seats, and the Republicans only 178. (One seat is held by an Independent.) In the Senate, Democrats are defending 22 of the 35 seats at stake. Currently, the Senate has 56 Democrats and 44 Republicans.

Politicians, poll takers, and consultants from both parties have predicted Republicans will gain seats in both the House and the Senate—15 to 30 or more in the House and three to six in the Senate.

Should the GOP gain either formal or practical control of Congress for the final two years of the Democratic president's term, *Nation's Business* readers would not object to having divided political control of the two branches. By a large margin—72 percent to 16 percent—respondents to the September poll said they view such a split as "desirable restraint," not "unhealthy gridlock."

Here are the complete results of the survey:

CONGRESS

■ What will determine your choices in this year's congressional election?

1. Opposition to President Clinton's policies	65%
2. Support of President Clinton's policies	4
3. Relative abilities of the candidates	28
4. Traditional party loyalties	3

■ Will you vote for your incumbent U.S. representative (or for the incumbent's party if he or she is not running)?

1. Yes	33%
2. No	48
3. No opinion	19

■ If your state is electing a U.S. senator, will you vote for the incumbent (or for the incumbent's party if he or she is not running)?

1. Yes	29%
2. No	54
3. No opinion	17

■ If your state is electing a governor, do you intend to vote for the incumbent (or for the incumbent's party if he or she is not running)?

1. Yes	37%
2. No	53
3. No opinion	10

■ How will your vote in the 1994 congressional elections compare with your 1992 choices?

1. Shift from Democrat to Republican	14%
2. Shift from Republican to Democrat	2
3. Stay Democrat	9
4. Stay Republican	75

■ Unhealthy gridlock can result when different political parties control the White House and Congress. Another opinion holds that the mutual restraint is desirable. What is your view?

1. Unhealthy gridlock	16%
2. Desirable restraint	72
3. No opinion	12

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To Your Health

Managing well includes managing your own health.

By Phyllis M. Barrier

Goodbye To The "Diabetic Diet"

For decades, the millions of Americans with diabetes were encouraged to obey rigid rules when they sat down to eat. But no longer. Earlier this year, the American Diabetes Association (ADA) issued guidelines breaking with its past recommendations for a standardized "diabetic diet."

Before insulin was discovered in 1921, doctors tried to keep their diabetic patients alive by putting them on a starvation diet. The idea was this: Since diabetes involves dangerously high blood-glucose levels, those levels could be kept down by limiting the calories the body converts into glucose. But once insulin was available, the issue then became, what kind of diet, combined with insulin, can best keep diabetes in check?

The answer changed repeatedly in the dietary recommendations that the ADA issued at intervals from 1921 to 1986. Over the years, the recommended percentage of fat dropped to 30 percent from 70 percent, and the carbohydrate figure rose to 60 percent from 20 percent. The only percentage guideline in the new recommendations is that 10 to 20 percent of calories come from protein, with the remaining 80 to 90 percent coming from fats and carbohydrates.

For most of this century, it was widely believed that people with diabetes should avoid sugars and sweeteners in favor of other carbohydrates, such as bread and potatoes. As the 1994 guidelines point out, however, there is little scientific evidence to support the theory that sugars are more rapidly digested and absorbed than other carbohydrates and therefore more apt to raise blood-glucose levels.

"We have learned that the total amount of carbohydrate eaten, rather than its source, is the critical factor in affecting blood-glucose levels," says Marion Franz, director of nutrition and publications at the International Diabetes Center, in Minneapolis.

The guidelines "are not a license to add sugar to the prescribed meal plan but rather a recognition that, when total calories and nutrients are considered, sugar can be eaten in modest amounts as part of a balanced meal," says Dr. Edward S. Horton Sr., medical director of the Joslin Diabetes Center, in Boston.

Here, as elsewhere, the new guidelines do not dispense with rules altogether—instead, they avoid rigid rules in favor of a more individualized approach. Each person should have a meal plan tailored not just to health concerns but to "the person's tastes and other lifestyle factors," says Dr. Kathleen Wishner, president of ADA and an associate clinical professor in the division of diabetes, hypertension, and nutrition at the University of Southern California.

"The 1994 recommendations emphasize that everyone with diabetes [should] have an individual consultation with a registered dietitian," she says, "because a standard meal plan does not address all the issues for each individual."

Wishner says that a meal plan should be based on:

- A nutrition assessment, to determine what the person is able and willing to do.
- Individual treatment goals, which can extend not only to blood-glucose levels but also to weight and levels of blood lipids (cholesterol, for example).
- Ongoing monitoring, to check on whether the meal plan should be modified.

The ADA committee made other observations that should be taken into account, even as meal plans are being individualized. For example, most people who have Type II diabetes—the kind that appears in adults, rather than children—are overweight, and the new guidelines acknowledge that "traditional dietary strategies ... have usually not been effective in achieving long-term weight loss." While recommending several weight-loss techniques, the guidelines emphasize the benefits that can be realized from even modest improvements: "Mild to moderate weight loss of 10 to 20 pounds has been shown to improve diabetes control, even if desirable body weight is not achieved."

For the average person with diabetes, though, it is surely the greater dietary freedom that is the most significant aspect of the new guidelines.

Tia Taylor of Alexandria, Va., has had insulin-dependent diabetes since she was 12. When she was diagnosed 14 years ago, she was put on the standard "diabetic diet." She says the new guidelines "make everyday life easier and take some of the fear out of having a dessert once every blue moon." The freedom the new guidelines offer is helpful, she says, since "everyone is different, everyone has a different work and eating schedule, and everyone doesn't like the same foods."

November is National Diabetes Month. Call the American Diabetes Association at 1-800-DIABETES, or 1-800-342-2383, for a new brochure that tests your knowledge of the latest in diabetes treatment. For details on National Diabetes Month activities in your area, call your local American Diabetes Association affiliate; the phone number is listed in the white pages. ■



PHOTO: ELLEN FERGUSON—UNIPHOTO

New dietary guidelines *for diabetes favor an individualized approach, not rigid rules.*

Phyllis M. Barrier is a registered dietitian and nutrition consultant in the Washington, D.C., area.

Editorial

You Don't Achieve Simplicity With A 1,342-Page Bill

On Sept. 22, 1993, President Clinton told Congress that simplicity would be a key element of the health-care-reform proposal that he would soon send to Capitol Hill.

What the lawmakers actually received was a 1,342-page bill calling for them to pile cost upon cost, bureaucracy upon bureaucracy, and regulation upon regulation.

A bill that big can—and did—accommodate enough provisions to alienate virtually every constituency on a given subject.

Individuals and groups alarmed by the Clinton proposals included employers, employees, retired employees, hospitals, medical practitioners, patients, potential patients, taxpayers, and insurance companies.



PHOTOS: LOOMIS BRACK—BLACK STAR

Senate Majority Leader George J. Mitchell

Congress heard from them all. It was not surprising, therefore, when Senate Majority Leader George J. Mitchell conceded in September of this year that there was no prospect for passage of the Clinton plan or anything resembling it.

Since then, the debate over health-care reform has focused on why the president's initiative collapsed. Business opposition was a major element. Congress was particularly receptive to employers' warnings that job reductions and even closed plants would have been the ultimate cost of the mandated insurance coverage and higher taxes of the Clinton plan.

The 103rd Congress, in which the health-care-reform debate of 1994 took place, will soon end. It will be replaced by the 104th Congress, which is being chosen this month by voters wanting new faces, new attitudes, and new policies in Washington.

Given the lessons learned this past year, the very basis of the debate will most likely be different. Instead of asking how much the government role in health care should be expanded to achieve maximum change, the new Congress should focus on private-sector initiatives to deal with the most pressing problems.

If the debate of the past year has demonstrated anything, it is that the government-based solutions envisioned by the White House would only make the problem worse. A worker who lost a job because mandated health-insurance costs forced an employer to retrench would be eligible, by virtue of impoverishment, for government-paid health insurance. That individual would hardly consider that situation a major improvement.

There is an unfinished agenda on improving the health-care system. Fortunately, proposals for Clinton-style radical reform have been effectively ruled out.

The new Congress should instead deal with problems of coverage and costs through the type of market-based measures that have been proposed by such business organizations as the U.S. Chamber of Commerce and are supported by such key legislative leaders as Senate Minority Leader Bob Dole. These proposals are designed to allow consumers to make informed and cost-effective choices and to have access to coverage.



Senate Minority Leader Bob Dole

Other steps should include curbing the medical-malpractice litigation that unfairly drives up costs for everyone and allowing small businesses the same 100 percent deduction for insurance premiums that corporations have long been able to take.

These are straightforward proposals that are easily understandable and could be enacted quickly.

Health-care reform really doesn't have to begin with a 1,342-page bill. NB





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The Business Advocate

SUPPLEMENT TO Nation's Business NOVEMBER 1994

U.S. Chamber of Commerce

Action Needed Now

Key Trade Vote Set

The U.S. Chamber of Commerce is mounting an all-out offensive to win support for legislation to implement the new pact negotiated under the General Agreement on Tariffs and Trade (GATT), which Congress is expected to vote on in late November or early December.

The Chamber is urging its 220,000 members to contact their incumbent senators and representatives to ask them to vote in favor of the measure, which rewrites global trading rules.

President Clinton sent GATT-implementing legislation to Congress in September. The House and Senate adjourned Oct. 8 without voting on the bill but planned to return to Washington

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Rep. Jim Kolbe, right, R-Ariz., a leader on trade matters in the House, discusses the GATT accord with Chamber President Richard L. Lesher before they participate in the Chamber's "It's Your Business" TV show on the trade issue.

Chamber Wins On Lobbying Disclosure

In a major victory for the U.S. Chamber of Commerce, a bill that would have heaped new requirements and paperwork on organizations that lobby the federal government was defeated before Congress adjourned Oct. 8 for pre-election campaigning.

The Chamber worked on the issue with numerous other grass-roots organizations that represent their members' views before Congress and the executive branch.

The legislation died Oct. 7 when the Senate failed to muster the two-thirds majority needed to cut off debate on the lobbying bill and to bring it up for a vote. The House had approved the legislation, crafted by a House-Senate conference committee, in late September.

The measure would have infringed on organizations' and the public's rights of free speech and free association

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■ Politics

Significant Turnover In Congress Projected

Public dissatisfaction with politicians and the direction the country is headed likely will mean a significant turnover in Congress as a result of the Nov. 8 elections, political analyst Charles E. Cook told business executives meeting recently at the U.S. Chamber of Commerce.

Public cynicism that political analysts believe played a major role in in the 1992 presidential election has reached a fever pitch, Cook said. And that cynicism is likely to result in losses for Democrats because they control the White House and Congress, he predicted.

Cook, who publishes the *Cook Political Report*, said he expects Republicans to gain 23 to 28 House seats and four to six Senate seats.



Political analyst Charles E. Cook previews the Nov. 8 elections at a meeting at the Chamber of the Policy Insiders. He expects the Republicans to gain 23 to 28 House seats and four to six Senate seats.

But he added that the degree to which voters turn out on Election Day will dictate the extent of the Republican victory.

Conservatives, who generally vote Republican and who are "galvanized like never before," will vote in huge numbers this year, Cook said, while there likely will be a low turnout among liberal Democratic voters who are disappointed with President Clinton and congressional Democrats.

According to Cook, voters who are angry with politicians generally will take out that anger on both parties, which bodes ill for Democrats, who have more seats being contested than Republicans.

All 435 House and 35 of 100 Senate seats are up for election. The Democrats currently control the House by 256-178—there is one Independent—and the Senate by 56-44. Democrats now hold 22 of the 35 Senate seats on the November ballots.

One important race to watch will be House Speaker Thomas S. Foley's in Washington state. The 15-term Democrat was running behind his Republican challenger, George Nethercutt, in September polls. In the open primary election Sept. 20, Foley received just 35 percent of the vote; Nethercutt got nearly 30 percent, and three other Republicans split the remaining votes.

If voter anger toward the majority party grows, said Cook, "it is a very real possibility that the Republicans could take over the House." The GOP would need a 40-seat gain to win control of that chamber.

The U.S. Chamber is emphasizing the importance of business participation in the November elections.

The business federation is encouraging business people to cast their ballots Nov. 8. Employers are also being urged to encourage their employees to vote.

■ New Coalition

Group Targets Move To Limit Arbitration

The U.S. Chamber of Commerce has formed a coalition to preserve unrestricted use of alternative dispute resolution in employment matters.

The group has been formed in response to a movement in Congress to limit the availability of that type of conflict settlement, which is based on arbitration rather than litigation.

Alternative dispute resolution has been gaining in popularity as businesses and organizations have increasingly looked for ways to reduce legal costs, which often can be substantial.

The Chamber-led coalition, the Council on Employment Law Equity, monitored legislation introduced this year in Congress that would have banned mandatory binding arbitration of employment disputes. In that approach, a dispute must go to arbitration, rather than to a court, and both parties must accept the arbitrator's decision.

In their attempts to control legal costs, many companies have begun requiring employees—as a condition of employment—to waive the right to sue employers in court over employment disputes in favor of binding arbitration.

The bills to restrict use of binding arbitration were introduced in Congress this year by Rep. Patricia Schroeder, D-Colo., and Sen. Russell D. Feingold, D-Wis., and are expected to be reintroduced in the 104th Congress. There was no action on the legislation this past year.

Feingold and Schroeder say their proposals are aimed at protecting employees' civil rights. Their measures would amend, among other statutes, the Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Americans with Disabilities Act to prohibit the use of mandatory arbitration. Employers and employees could still enter into voluntary arbitration under the Schroeder/Feingold proposals.

Employers counter that arbitration agreements protect them from frivolous lawsuits filed by disgruntled employees and former workers. They also point out that violations of laws such as the Civil Rights Act are federal offenses that can be prosecuted by the government.

Chamber members who would like to join the coalition should contact the Chamber's Peter Eide at (202) 463-5507.

■ Communications

Chambers Begin Using Satellite Network

As the U.S. Chamber of Commerce's state satellite network expands, participating organizations are beginning to use their new communication capabilities in a variety of ways.

For example, the Wisconsin Manufacturers and Commerce, the state's chamber of commerce, has used its satellite dish to communicate with members about pending state legislation and to alert members of local school boards throughout the state about an education initiative it is sponsoring.

Several chambers in the network, as well as other organizations across the country, have downlinked the U.S. Chamber's popular quality-management seminars. (See Page 99 for a list of upcoming seminars.)

And many organizations in the network participated in the U.S. Chamber's Sept. 8 National Business Agenda videoconference. The videoconference enabled Chamber members nationwide to be briefed on the federal legislative outlook for next year and to express their views on legislative priorities during the teleconference or in a related member survey or in both. Once developed, the agenda will guide the Chamber's program of work during the next Congress.

The U.S. Chamber is now linked by satellite with chambers of commerce in 28 states. Several other organizations will join the network in the next few months, according to Richard Loomis, executive director of the Chamber's Office of Chamber of Commerce Relations. (See the map on this page.)

The satellite dishes are being donated to the U.S. Chamber by Comsat Corp., of Washington, D.C., and Radiation Systems Inc., of Sterling, Va.

The satellite network was established by the Chamber to enhance its communication capabilities and those of participating organizations.

It follows the establishment of the Chamber's Grassroots Action Information Network (GAIN), which serves as a quick and direct link between the national organization and business members active on legislative and regulatory issues.

The satellite network is providing additional access for business people to participate in interactive town-hall-type meetings broadcast from the Chamber's Washington headquarters.

Over the past couple of years, the Chamber has aired a number of those meetings, including a rally on the North American Free Trade Agreement, a Republican forum on health care, and several education town meetings.



PHOTO: STEVE WHEELER

The Louisiana Association of Business and Industry, in Baton Rouge, was among the viewing sites for the National Business Agenda teleconference broadcast from the U.S. Chamber in September. The Louisiana group is among the state business organizations that have installed satellite receiving dishes obtained through the U.S. Chamber.

For more information about the satellite dishes, contact the U.S. Chamber's Richard Loomis at (202) 463-5580.

Participation In U.S. Chamber's Satellite Network



■ Update

More Data On Workers' Comp

The nearly 100 changes in workers' compensation laws in 33 states over the past year are detailed in a new U.S. Chamber of Commerce publication.

The Chamber's *Annual Supplement to the 1994 Analysis of Workers' Compensation Laws* also includes charts on each state's income benefits for total disability, various injuries, and deaths.

Both the *1994 Analysis of Workers' Compensation Laws* (publication No. 0366) and the supplement (No. 0367) are available by calling 1-800-638-6582 (1-800-352-1450 in Maryland) weekdays between 9 a.m. and 4:30 p.m. For bulk quantity discounts, call (202) 463-5533.

The publications also may be ordered by sending a check or money order, payable to the U.S. Chamber of Commerce, to Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.

The analysis costs $25 and the supplement $8 for Chamber members. The costs for nonmembers are $15 and $11, respectively.

■ Defending Business

Briefs Filed In 3 Supreme Court Cases

The U.S. Supreme Court is set to consider a number of cases that could affect business broadly during its new term, which began in October. Already, the U.S. Chamber of Commerce's legal affiliate, the National Chamber Litigation Center, has filed briefs on behalf of business in three cases.



Attorneys Glen Nager, left, Maureen Mahoney, and Richard G. Taranto discussed some of the business-related cases before the Supreme Court during a media briefing in September at the U.S. Chamber of Commerce. Nager is a partner in the Washington office of Jones, Day, Reavis and Pogue; Mahoney is a partner with the Washington office of Latham and Watkins; and Taranto is a partner with the Washington firm Farr and Taranto.

One, *McKennon vs. Nashville Banner Publishing Co.*, could be among the more closely watched cases before the court this session. It involves a 62-year-old employee, Christine McKennon, who filed a lawsuit against the Nashville newspaper publisher, claiming age discrimination when she was fired during a work-force cutback.

The company later discovered that the employee had photocopied confidential documents and taken the copies from the work site before she left. The company has contended that this in itself would have been grounds for termination, and the publisher contends this disqualifies her claim, saying she already would have been fired had her supervisors known about the document copying.

The Sixth Circuit Court of Appeals had upheld a summary judgment for the company.

The issue before the court is whether an employer's discovery, after a worker's firing, of evidence that would otherwise justify termination can bar a worker's claim of age discrimination. In its brief, NCLC argues that in some instances this "after-acquired" evidence should bar a discrimination claim.

For example, NCLC says, the evidence should bar such a claim when its discovery indicates the employment relationship was based upon fraud and when the evidence is significant enough that it would have led to a refusal to hire or a decision to fire the employee.

■ Pension-Law Pre-emption

In a case involving the Airline Deregulation Act of 1978, NCLC is working to protect federal pre-emption of state laws related to pension plans.

The airline act and the federal pension law—the Employee Retirement Income Security Act (ERISA)—are similar in that both say that they pre-empt state laws that "relate to" their subjects.

The case, *American Airlines Inc. vs. Wolens*, has nothing to do with pensions directly. Rather, it stems from a class-action lawsuit by American's frequent-flier program participants, filed in Illinois state court, after the airline retroactively reduced frequent-flier benefits.

Program participants alleged breach of contract and violation of an Illinois consumer-protection law. The airline, however, has argued that the claim is pre-empted by the federal airline deregulation law.

NCLC attorneys fear that if the Supreme Court does interpret broadly the "relate to" words in the airline law, those words could be challenged in ERISA cases as well, reopening ERISA pre-emption issues.

In its brief, NCLC argues that the broad pre-emption statute included in the airline law applies to all state laws that refer to airline rates, routes, or services.

■ Benefit Plan Changes

In a third brief, related to *Curtiss-Wright Corp. vs. Schoonenjongen*, NCLC is asking the high court to overturn a Third Circuit Court of Appeals decision that a company's use of conventional language to amend its retiree benefits plan was insufficient under ERISA.

The case is significant because companies frequently make changes in their benefit plans, and few plans contain detailed amendment procedures, NCLC says.

The case stemmed from the 1983 termination by Curtiss-Wright of health benefits for all retirees who had worked at its plant. Curtiss-Wright is a manufacturer of aircraft components in Lyndhurst, N.J.

The company had relied upon a right, stated in the benefit plan's constitution, to change the terms of the plan. But the Third Circuit upheld a lower court decision that the termination of benefits was invalid. The court said that under ERISA, the plan must specify detailed procedures to make changes.

NCLC argues that, unless the Supreme Court reviews the lower-court decision, the ruling will create upheaval because many changes in company benefit plans—either to boost benefits or reduce them—will be declared retroactively void.

Among other potential problems in declaring plans retroactively void, NCLC says, would be loss of employee tax deductions for contributions to those plans and employee income-tax liability on vested interests under the plans. In addition, employers who cut benefits could be exposed to class-action suits from retirees or workers who want to collect an amount of money equal to what they lost in benefits.

■ Legislation

Task Force Plans Role In Telecommunications



The U.S. Chamber of Commerce is positioning itself to play a major role next year in shaping a new telecommunications bill that would further the development of the so-called information superhighway.

The Chamber formed a telecommunications infrastructure task force earlier this year to help develop and implement legislation, policies, and regulations for the National Information Infrastructure, or information superhighway. The electronic highway is envisioned as linking people throughout the U.S. via a variety of information networks, including telephones, cable systems, computers, and satellite systems.



Rep. Rick Boucher, D-Va., told a Chamber task force he expects action on a telecommunications bill in early 1995.

The task force will develop policy recommendations for the Chamber's board of directors to consider in anticipation of congressional debate on the subject in early 1995.

Congress tried to adopt legislation this year to begin the process of integrating the various communications links.

The House approved legislation, 425-5, by reaching consensus with most of the telecommunications industry. But objections from some senators and telecommunications providers and users to a bill crafted by the Senate Commerce, Science, and Transportation Committee killed efforts to pass a measure this year.

While the Chamber took no position on the House bill, the organization raised concerns about regulations and costs that the Senate bill would have imposed on telecommunications firms.

In a letter to senators, the Chamber noted that a number of provisions in the bill could have expanded government regulations into areas that have never been regulated, such as data processing and electronic mail.

The Senate measure also would have greatly broadened the definition of universal service to include not only subsidized access to telecommunications but also to information services.

Under the Communications Act of 1934, which the Senate and House measures would have rewritten, "universal service" provisions require telephone companies to provide telephone access to rural areas and subsidize phone service to residences, thereby making it available to many individuals who could not otherwise afford it. The subsidies are financed solely by businesses through rates that are higher than those charged to residential customers.

The Senate bill would have expanded universal service to include cable and computer systems, for example.

■ Procurement

Push For Reform To Continue

The U.S. Chamber of Commerce will continue to work to improve the federal government's process for buying goods and services following the organization's 1994 success in winning changes in the system.

In late September, President Clinton signed into law Chamber-backed legislation designed to streamline the procurement process. The Chamber worked with lawmakers in the House and Senate to get specific reforms included in the measure to make selling to the government more attractive to small companies.

The new law, the Federal Acquisition Streamlining Act of 1994, encourages the federal government to purchase more commercial goods directly off the shelf. Currently, virtually everything the government buys must meet detailed specifications. It is also expected to ease the paperwork burden on government contractors, especially small firms. (For details on the new law, see Page 98.)

The Acquisition Reform Working Group, an ad hoc coalition of government contractors and organizations, including the U.S. Chamber, said the new procurement statute "will provide the foundation for fundamental changes in government business practices." The coalition, whose members are involved with federal procurement, also said the new law offers "an important opportunity to reinvent the culture of acquisition by placing greater reliance on judgment, integrity, professionalism, and the forces of the marketplace rather than on minutely detailed directives and regulations."



GSA Administrator Roger Johnson addresses a procurement-reform coalition at the Chamber.

While the new procurement law represents progress, says Jody Olmer, manager of domestic policy for the Chamber, more reforms are needed in the government's procurement system. She said the Chamber would be closely monitoring the government's implementation of the new law.

■ Outlook

Regulatory-Reform Climate May Improve

The political climate on Capitol Hill will be more favorable to business as a result of the 1994 congressional elections, presenting an opportunity for regulatory reform, two key lawmakers told business leaders meeting recently at the U.S. Chamber of Commerce.

"I think the next Congress is going to bring a lot more opportunity" for reform, said Sen. Don Nickles, R-Okla.



Sen. Don Nickles, R-Okla., addressed the Chamber's task force on regulatory reform in September.

Rep. Tom DeLay, R-Texas, who, like Nickles, has been a champion of regulatory reform since being elected to Congress, said: "I think we stand a very good chance of making meaningful changes—or making this president veto meaningful legislation."

Both lawmakers hold leadership positions on Capitol Hill. Nickles is chairman of the Senate Republican Policy Committee, and DeLay is secretary of the House Republican Conference.

The lawmakers spoke at the first meeting of the Chamber's new 85-member Regulatory Affairs Committee, a panel of business leaders set up to develop a strategy to make the government regulatory process more practical.

The committee is expected to focus on actions needed to reduce the paperwork burden resulting from regulations. It will also urge government officials to regulate only where the greatest risks to public health have been identified through sound science.

During their meeting with the committee in late September, Nickles and DeLay said their projections for a Congress more receptive to regulatory reform next year are based on the likelihood that Republicans will pick up some House and Senate seats in the Nov. 8 elections; that GOP lawmakers will join with like-minded conservative Democrats on issues such as regulatory reform; and that the resulting coalition can ultimately control the legislative agenda.



Rep. Tom DeLay, R-Texas, believes "meaningful changes" in the regulatory process are possible in 1995.

DeLay told business leaders to expect extensive regulatory-reform efforts by pro-business lawmakers when the 1995 legislative session begins. Measures likely to be introduced, he said, would call for better assessments of the health risks that proposed regulations are intended to address; cost-benefit analyses of regulations; a stronger focus on private-property rights; and an easing of the regulatory paperwork burden.

The Chamber committee also heard from Sally Katzen, administrator of the Office of Information and Regulatory Affairs of the Office of Management and Budget. Katzen is spearheading some of the Clinton administration's efforts to make regulations more flexible.

"Good process leads to good decision making," she said in applauding the Chamber's efforts to address the process of crafting regulations.

But there is a major difference between the Clinton administration and the business community on the role of risk assessments and cost-benefit analyses in developing new regulations.

Business wants legislation to require that proposed regulations be accompanied by such analyses, while the administration wants to continue to address their use through an executive order Clinton signed last year.

Katzen said mandating these types of analyses through legislation can be too rigid, wasting resources in cases where the results wouldn't change the final outcome. For example, she said, if a bill bans a particular product from the market, calculating the effect of that already-made decision might be a useless exercise.



Administration official Sally Katzen is spearheading some of the president's regulatory-reform initiatives.

DeLay, however, said that without legislation, bureaucrats can find ways to avoid performing risk assessments. He contended that the administration's opposition to legislation casts doubt on whether the president really supports regulatory relief. "My mother always told me to judge someone by their actions, not their words," DeLay said.

Nickles, meanwhile, said that if the coalition can get its issues to the floor for full House and Senate votes, it can bring about key changes that will benefit business. "If we can get a vote in the House, we'll win," he said. "If we can get a vote in the Senate, we'll win."

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Big Benefits At Stake In Trade Vote

GATT Pact Would Generate Jobs And Economic Growth In U.S.

The success of the Uruguay Round trade negotiations has been a priority of the U.S. Chamber of Commerce since negotiations began in 1986. Now, after more than seven years, the intensive and bipartisan efforts of the Reagan, Bush, and Clinton administrations' trade negotiators are about to reach a climax.

The House and Senate will vote in late November or early December in a lame-duck session on legislation to implement the latest accord under the General Agreement on Tariffs and Trade.

While not perfect—no trade pact ever is—the Uruguay Round agreement will generate immense benefits for the U.S. economy, businesses, and workers, according to the U.S. Chamber.

Among other benefits, the pact will:

- Create hundreds of thousands of high-paying jobs in the United States.
- Boost the world economy, which is currently stalled, and increase U.S. GDP by $100 billion to $200 billion annually over 10 years.
- Eliminate foreign tariffs in key U.S. export sectors.
- Cut global tariffs by more than one-third.
- Expand U.S. exports of goods and services.
- Reduce agricultural export subsidies worldwide, bringing an increase in U.S. exports of food products by as much as $8.5 billion by 2005.
- Protect intellectual property of U.S. entrepreneurs from piracy in world markets.
- Provide market access in fast-growing countries like Brazil, Thailand, and Malaysia.

While these aspects should be reason enough for the House and Senate to approve legislation to implement the trade accord, there are other reasons why Congress should vote quickly and decisively this year in favor of the pact.

First, the U.S. pressed the GATT trade organization, which includes more than 120 nations, to complete the Uruguay Round, and all of the U.S.'s major trading partners plan to approve the agreement by Jan. 1. The sooner the agreement is implemented, the sooner the benefits will begin to accrue.

Second, U.S. credibility in asking Japan and others to open their markets is tied to congressional passage of legislation to implement the agreement.

Despite critics' assertions, the U.S. would not lose its sovereignty because of the World Trade Organization, which would be created by the GATT pact to resolve trade disputes, the U.S. Chamber maintains. Only the Congress can change U.S. laws. Under the pact, the U.S. would retain all its current rights to set its own laws and standards.



The big winners under the agreement would be U.S. consumers. Workers and firms in these industries, just to name several, would be major beneficiaries: agriculture; chemicals; paper; toys; software; travel and tourism; beer; banking; construction, transportation, and medical equipment; steel; computers; retailing; electronics; pharmaceuticals; household appliances; insurance; telecommunications; aerospace; semiconductors; and furniture.

According to Treasury Secretary Lloyd Bentsen, increased business activity generated by the Uruguay Round agreement would hold down the U.S. budget deficit by $60 billion over the next 10 years.

Why is it so important for Congress to approve the pact this year rather than wait until 1995? Waiting six months to implement the agreement (compared with immediate implementation) would mean lost production of $70 billion and 25,000 fewer jobs over the next decade, Bentsen says. Delayed implementation would also cost the average American family $110 a year in lost income—more than 5 percent of the agreement's potential benefits.

A six-month delay would reduce the size of the projected $750 billion global tax cut, which U.S. officials say the pact would equal, by $90 billion.

Write or call your current representative and senators no later than Nov. 28, and urge them to vote to approve legislation to implement the GATT trade accord. Tell them the pact is expected to create about 500,000 new jobs for Americans and increase U.S. GDP by $100 billion to $200 billion per year over 10 years. The addresses are U.S. House of Representatives, Washington, D.C. 20515, and U.S. Senate, Washington, D.C. 20510. The phone number for the congressional switchboard is (202) 224-3121.

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, the U.S. Chamber staff of specialists on legislative and regulatory issues provides activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how you can become a member of this network, call (202) 463-5604.

Chamber Assesses Health-Care Outlook After Defeating Comprehensive Proposals

When Senate Majority Leader George J. Mitchell, D-Maine, said bluntly in late September, "It is clear that health-insurance reform cannot be enacted this year," the U.S. Chamber of Commerce was not surprised.

Reliable sources on Capitol Hill had been telling the Chamber for some time that this announcement was coming, and anyone who could count the days before the Nov. 8 election had independently come to the same conclusion. Mitchell's words simply reinforced the general inclination to look toward 1995.



Why did Congress decide to forgo passage of a health-care reform bill this year? Many interested parties, including the Chamber, would say the undertaking was too ambitious from the very beginning, says Lisa Sprague, manager of employee-benefits policy for the business federation.

"Trying to overhaul in a single year a delivery system that represents one-seventh of the U.S. economy was asking for failure," Sprague says. "Clinton-style health-care reform would have established a new federal agency, transformed the U.S. insurance industry, led to price and cost controls, revamped medical education, rolled workers' compensation coverage into health insurance, and guaranteed comprehensive benefits to everyone—among other things."

Once the details of the Clinton plan were known, Chamber members expressed their views on key aspects of it through an organizationwide poll. The Chamber board of directors then adopted a policy opposing the plan based on those views, and the organization undertook a concerted effort to defeat the Clinton plan and others similar to it.

For all the congressional attention the plan proposed by the president received, it never came close to the kind of popular support it would have needed to be approved ultimately by Congress. The same was true of the equally ambitious versions of the Clinton plan proposed by House Majority Leader Richard A. Gephardt, D-Mo., and Mitchell.

"Trying to overhaul in a single year a delivery system that represents one-seventh of the U.S. economy was asking for failure."

—Lisa Sprague, U.S. Chamber of Commerce

As the congressional session wound down, proposals aimed at compromise proliferated. In the Senate, a bipartisan coalition of 20 senators known as the Mainstream Coalition put Herculean efforts into the ultimately futile quest to develop a bill that would be more limited than its Clinton-Mitchell predecessor and could gain enough support to pass. But the Chamber and other organizations found this plan, which could serve as the starting point for next year's debate, unacceptable because it would have:

- Prohibited self-insurance for all employers with fewer than 100 workers.
- Required all employers to offer, but not pay for, at least two health plans and to set up payroll deductions to handle premium payments.
- Created a federal health commission to define coverage for standard and basic health-insurance plans available nationwide.
- Allowed states to set up single-payer health systems under which the state would levy taxes to pay the medical bills of its residents.

In the House, the bipartisan plan proposed by Reps. Michael Bilirakis, R-Fla., and J. Roy Rowland, D-Ga., very likely could have mustered the necessary votes—had it ever been permitted to reach the House floor. But the House Democratic leadership, wary of rivals to the Clinton-Gephardt bill, barred the way.

The words on every member of Congress's lips these days are "next year." No lawmaker is suggesting publicly that the need for reform has evaporated. Supporters of a single-payer, Canadian-style system vow they will push their proposals again next year. Backers of Senate Minority Leader Bob Dole's plan, which would make coverage more available and less costly through insurance reform and other changes, note the proposal's prospects for enactment will be quite different if he becomes majority leader in 1995.

Republicans are expected to pick up some seats in the Senate as a result of the elections, but whether they will gain the seven seats they need to become the majority party is uncertain.

The Chamber expects that when Congress resumes health-care discussions next year, it will do so without the all-consuming, do-or-die intensity of 1994. The Chamber itself will continue to support targeted, market-based reform measures that will help make health insurance more available and affordable without burdening employers or expanding government involvement at the federal or state levels.

Already, however, several states, backed by the National Governors' Association, are seeking to strengthen their control over health-care insurance in moves opposed by the Chamber. They include Oregon, Washington, Florida, Connecticut, Maryland, Hawaii, and Minnesota.

These states are pressing for waivers from federal law (the Employee Retirement Income Security Act, known as ERISA) that would let them move ahead with their own reform efforts. "What the states in fact are seeking," says the Chamber's Sprague, "is the power to impose state taxes and/or mandates on self-insured plans."

She says ERISA waivers would produce a patchwork of inconsistent state laws, prevent multistate employers from offering a single benefit plan to all their employees, and thwart attempts to improve health insurance portability. Since the Mitchell announcement, the Chamber has devoted much of its health-care efforts toward preventing such waivers because of the negative impact they would have on business.

Achieving No Mining-Law Reform This Year Is Better Than The House Bill Would Have Been

While the U.S. Chamber of Commerce supports overhauling the nation's mining law, the organization viewed the death of pending reform legislation with the adjournment of the 103rd Congress as a blessing for business.

The legislation died when members of a House-Senate

conference committee failed to reconcile differences between the widely different bills passed by the two houses in 1993. The Chamber had supported the Senate measure but adamantly opposed the House bill because it would have imposed tremendous costs and regulations on mining companies and hurt the economy. The mining industry is particularly important to communities and economies in Western states.



PHOTO COURTESY GARY KEEFER

Business also objected to provisions that would have effectively barred mining on federal lands.

The Chamber had urged House-Senate conferees to adopt the Senate bill's language.

"With the potential for the conference panel to clear a bill that resembled the House measure, death of the legislation was the best fate from our perspective," said Stuart Hardy, manager of energy, food, and natural resources policy for the Chamber.

The reform measures passed by the House and Senate would have overhauled the General Mining Law of 1872. Similar bills are expected to be introduced in the 104th Congress, and the process to reform the mining statute likely will begin again early next year.

Hardy said the business federation will work with lawmakers in 1995 to craft legislation that business can support.

Key Differences Between Bills

The major conflicts between the House and Senate bills are likely to resurface in next year's debate.

Specifically, differences were over:

- Royalties—The Senate bill called for a 2 percent royalty on the net value of minerals extracted from public land, while the House bill mandated an 8 percent gross royalty.
- Unsuitability—The House bill required the federal government to review a mining company's plan for extracting minerals before an operating permit would be issued. The Senate bill contained no such provision.
- Holding Fees—The Senate bill called for a $100 per claim holding fee. The House bill imposed a $200 per claim holding fee for new claims and a $100 fee for old claims.
- Reclamation—The Senate bill would have allowed states to set reclamation standards for restoring mined lands. The House measure would have imposed new federal standards.
- Patents—The Senate called for the payment of fair market value for surface land. The House eliminated the patent provision, which would have denied prospectors the right to take title to public land.

Industry's Value To The Economy

The domestic mining industry adds enormous value to the economic viability of hundreds of communities in the Western states and elsewhere. Many of those communities depend substantially on high-paying mining and smelting jobs linked to operations on federal lands.

Suppliers to the mining industry and businesses that depend on a stable, affordable supply of hardrock minerals also contribute to the nation's economy.

A viable domestic mining industry requires access to federal lands. Most U.S. hardrock minerals are located on federal lands; according to a General Accounting Office study, there is still $64.9 billion's worth of recoverable hardrock mineral reserves on public lands in the Western states.

Dozens of U.S. mining concerns would effectively be shut down by anything approaching an 8 percent gross royalty fee, Hardy said. Similarly, empowering federal land managers to deny operating permits on the grounds of vaguely defined "unsuitability" would likely foreclose many opportunities for profitable, job-creating new operations, he said.

Mining Law Differences

The Mining Law of 1872 was originally intended to promote the development and settlement of the Western states by permitting the free prospecting of "locatable" hardrock minerals.

Locatable minerals are defined as those found on federal lands in sufficient quality and quantity to render a claim. Hardrock minerals include gold, silver, copper, molybdenum, zinc, and many nonmetallic minerals such as calcium borates, feldspar, fluorspar, and gypsum.

The mining law opened all public lands for exploration by prospectors to spur economic growth. In recent years, however, legislation has limited the acreage open to exploration.

The 1964 Wilderness Act and the Federal Land Policy and Management Act of 1976 have put 113 million acres off-limits to mining, while the Mining In the Parks Act of 1976 prohibited any new prospecting within the national parks.

Currently, there are tens of millions of acres under consideration for wilderness designations that would further restrict prospectors' access.

Staking A Claim

After discovery of minerals, prospectors may file a claim preserving for themselves the right to mine a piece of land as long as they pay a $100 holding fee, or, in certain cases, perform $100's worth of work a year on the land.

Once a claim is made, the prospector maintains security of tenure, which prevents others from staking a claim on the land. If the fee is not paid or the work requirement is not completed, the claim may be invalidated.

Claimants may also gain fee title to the land—and the minerals on or in it—for $2.50 or $5 per acre through a patent on the claim if minerals are proved to be recoverable and if $500's worth of work has been completed. Once the patent is filed and granted, the claim becomes the property of the claimant, and the federal government receives no further revenues from the mineral site.

The Bureau of Land Management (BLM) is responsible for determining whether a patent should be issued, no matter which agency administers the land. On national forest lands, for example, the Forest Service performs the evaluations and makes its recommendations to the BLM, which grants or denies a permit.

Land claimed and patented under the Mining Law of 1872 is primarily concentrated in 10 Western states and Alaska. There are a total of 1.2 million claims held by 160,000 individuals and corporations on 35 million acres of public lands. Of those lands, only about 3.5 million acres have been patented.

Although the House and Senate could not agree on the issue of patents for federal lands, the fiscal 1995 Interior Department appropriations bill established a moratorium on such patents.

U.S. Chamber Set To Push For Capital-Gains Tax Relief

Support is building for a major push next year for legislation to provide capital-gains tax relief to individuals and corporations. Efforts are coalescing around a proposal backed by the U.S. Chamber of Commerce and introduced in the House during the 103rd Congress.

The measure, expected to be reintroduced in the 104th Congress, was sponsored by Reps. Dick Zimmer, R-N.J., Gary A. Condit, D-Calif., and Bill Archer, R-Texas. Archer is the ranking Republican on the House Ways and Means Committee and, if re-elected, would be chairman if the GOP gains control of the House as a result of the Nov. 8 elections.

Introduced this year as the Capital Formation and Jobs Creation Act of 1994 (H.R. 3739), the representatives' proposal would provide three important capital-gains incentives:



ILLUSTRATION: ALBERTO PINCHEIS

■ **The tax rate would, in effect, be lowered by adding a capital-gains exclusion.** The proposal would substantially lower the tax rate on capital gains by allowing individual and corporate taxpayers to exclude one-half of a capital gain from their taxable income.

Currently, capital gains realized from the sale of an asset are taxed as ordinary income, subject to a tax-rate cap of 28 percent for individuals and 35 percent for corporations.

■ **Gains would be indexed.** Much of the gain from the sale of an investment is often attributable to inflation, but the current U.S. code taxes the entire gain.

The proposal would index capital assets to allow for inflationary gains by increasing an asset's original price to account for inflation. This would end the current inequitable practice of taxing the imaginary gain resulting from inflation.

■ **A loss on the sale of a home would be treated as a capital loss.** Currently, the loss on the sale of a principal residence is not deductible as a capital loss, but gains on the sale of a home are taxable unless certain conditions are met.

The proposal would correct this imbalance and treat the loss on the sale of a home as a capital loss.

In addition to declaring its support for the legislation, the Chamber told the proposal's sponsors that the organization is committed to working with them to reduce the rate at which capital gains are taxed. That move would encourage savings and investment among business and individual taxpayers alike, according to Susan Bernstein, the Chamber's associate manager for economic policy. Investments that can result in capital gains are the kind that are needed to promote technological innovation and the creation of high-wage jobs, she said.

The current method of taxing capital gains is not only economically counterproductive but also unfair, the Chamber says.

"Capital-gains relief would be a pro-investment job-creator and a mechanism for upward mobility for millions of Americans," Bruce Josten, Chamber senior vice president for membership policy, wrote in a letter to the legislation's sponsors. "By discouraging investment necessary for expansion and growth, the current level of capital-gains taxation impedes the creation of new jobs."

The effort to reduce capital-gains taxes has attracted wide bipartisan support, but it is unclear whether that backing will continue into 1995. Thus, the Chamber is working to build visibility for the issue in the interim so that it will be high on the minds of lawmakers when the 104th Congress convenes next year.

When you know who will be representing you after the Nov. 8 elections, write your senators and representative about the importance of capital-gains relief to you. Urge them to support such tax relief when the 104th Congress convenes next year. Refer them to H.R. 3739, the Capital Formation and Jobs Creation Act, which was introduced in the House in 1994. For more information on capital-gains tax relief, call the Chamber's Economic Policy Division at (202) 463-5620.

Clinton Signs Procurement Bill Backed By U.S. Chamber

Key provisions of the procurement-reform law signed by President Clinton in mid-October and strongly backed by the U.S. Chamber of Commerce will:

■ Set aside agency contracts between $2,500 and $50,000 to $100,000—depending on an agency's level of computerization—for small-business bidders. Until now, the the set-aside has applied only to contracts worth less than $25,000.

■ Lighten the paperwork burden for companies involved in smaller purchases. For purchases of less than $2,500, government agencies can buy goods and services without going through the bid process.

■ Create an electronic data-interchange system to allow small firms to tap into internal government bulletin boards where agencies post notices of purchasing requests.

■ Raise the threshold for relatively simple purchases from $25,000 to $100,000. When selling the government goods or services costing less than $100,000, companies no longer must endure complex procedural requirements and record keeping and volumes of paperwork.

■ Simplify the process for commercial purchases. The measure waives more than 30 laws that require firms to provide government agencies with detailed cost and pricing data and other information. The cost and pricing data will have to be submitted for contracts of $500,000 or more.

■ Improve government explanations of why a company did not win a contract to help firms in subsequent efforts to secure federal business. GU

■ Management

Seminars To Feature Well-Known Experts

James Champy, co-author with Michael Hammer of the phenomenally successful book *Reengineering the Corporation* (HarperBusiness), is among seven presenters who will be featured in the spring 1995 satellite seminar series produced by the U.S. Chamber of Commerce.

Hammer and Champy, whose book has sold more than 300,000 copies in hardcover, have made "re-engineering" a part of everyday business language. The term refers to the sort of far-reaching, customer-focused change many companies have found to be the only path to survival. Champy will explain how management must change if re-engineering is to succeed.



James Champy, co-author of *Reengineering the Corporation*, is one of seven presenters in the spring quality-management seminar series.

The spring seminars, produced by the Chamber's Quality Learning Services Division, will bring to small-business people around the country the advice of nationally known experts on management.

The complete schedule for the spring satellite series, with the subject of each management seminar and its well-known presenter, is:

■ **March 7**—"Creating Value for your Customers and Employees," James Belasco, professor of management at San Diego State University and co-author of *Flight of the Buffalo* (Warner Books).

■ **March 21**—"Bringing the Customer In," Peter Scholtes, author of *The Team Handbook* (Joiner Associates) and a management consultant in Madison, Wis.

■ **April 4**—"The Great Game of Business," Jack Stack, author of a book of that title (Doubleday Currency) and chief executive officer of Springfield (Mo.) Remanufacturing Corp.

■ **April 11**—"Workplace Communications—the Gaps and Traps," management consultants Judith Briles of Denver, Rick Kirschner of Ashland, Ore., and Rick Brinkman of Portland, Ore.

■ **April 18**—"The Seven Habits—Becoming a Transition Person," R. Craig Pace of the Covey Leadership Center, Provo, Utah.

■ **May 2**—"The Leader in You," Stuart Levine, chief executive officer of Dale Carnegie & Associates, New York.

■ **May 23**—"Re-engineering Management," James Champy, chairman of the consulting firm CSC Index, Cambridge, Mass.

The seminars, all to be held on Tuesdays, will air from 1 to 3 p.m., Eastern time. For information, including prices for downlinks and taping rights, call 1-800-835-4730 or (202) 463-5940.

QLS's fall 1994 series continues in November and December with these final four seminars:

■ **Nov. 1**—"Motivating Employees: Myth or Reality," Peter Scholtes. (See March 21 listing above.)

■ **Nov. 8**—"The Power of Believing in People," Brian L. Joiner of the Joiner Associates consulting firm in Madison, Wis.

■ **Nov. 29**—"Increasing Quality Performance with Principle-Centered Leadership," Keith A. Gulledge of the Covey Leadership Center.

■ **Dec. 6**—"Paradigm Hunting: How to Explore the Future More Effectively," Joel Barker of the Infinity Limited consulting firm in Lake Elmo, Minn.

Information on the fall seminars is available by calling the phone numbers listed above. Also available through those numbers are two free QLS catalogs of dozens of management-training videotapes, including coverage of earlier seminars.

■ Last Chance

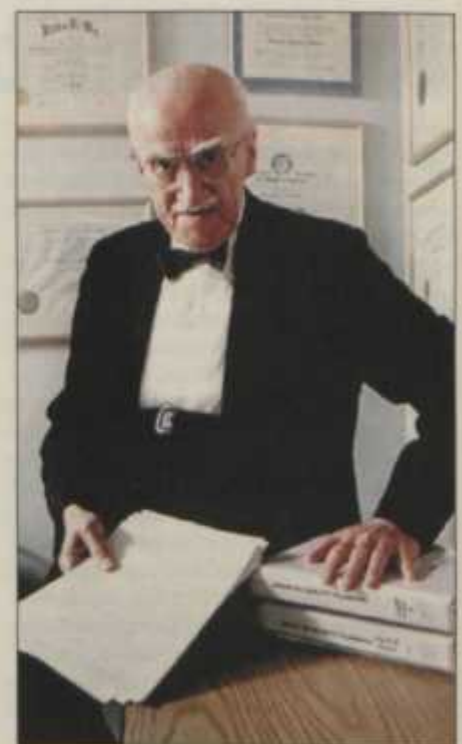
Quality Guru On Final Tour

Joseph M. Juran, widely acclaimed as the greatest living authority on quality management, is making his final public lecture appearances at one-day events throughout the country.

Juran, who will turn 90 late this year, will bring his "Last Word Tour" to the U.S. Chamber of Commerce in Washington on Nov. 10 from 9 a.m. to 5 p.m. The event is cosponsored by the Chamber and the Juran Institute, the training center established by Juran in Wilton, Conn.

In his appearance at the Chamber, Juran will sum up 70 years of experience in quality management as well as evaluate current trends and future prospects. He will devote much of the session to answering questions from the audience.

The registration fee is $395 a person and includes a continental breakfast and lunch. To register, call 1-800-338-7726.



Joseph M. Juran will speak at the Chamber Nov. 10.

Education



U.S. Deputy Secretary of Education Madeleine Kunin talks with state legislators Spencer Coggs, of Wisconsin, center, and Doug Jones, of Idaho, about progress on the Goals 2000: Educate America Act during a town meeting broadcast from the U.S. Chamber of Commerce. Coggs and Jones serve on the National Education Goals panel, which recently issued its 1994 progress report on Goals 2000. The broadcast was one in a series of education teleconferences co-sponsored by the U.S. Chamber's Center for Workforce Preparation.

Legislation

Rule Limitations Die

Business lost a chance to add two important weapons to its fight against government regulation with the demise of the National Competitiveness Act.

The legislation died for the year when members of a House-Senate conference committee could not reconcile differences in their respective versions of the bill before Congress adjourned Oct. 8.

The underlying measure would have authorized funds for U.S. Commerce Department promotion of American products and processes, but the U.S. Chamber of Commerce's interest was in persuading the conference panel to accept two pro-business provisions that had been passed by the Senate but not the House. Both provisions would have helped ease federal regulations on companies.

One, sponsored by Sen. Malcolm Wallop, R-Wyo., would have authorized judicial review of federal agencies' compliance with the Regulatory Flexibility Act. The law requires federal agencies to consider the impact of their rules on small businesses but contains no penalties for failure to comply. The U.S. Small Business Administration is charged with "enforcing" the regulatory act, but the statute expressly bars the courts from reviewing agencies' compliance with the law.

The other proposal, sponsored by Sen. Don Nickles, R-Okla., would have required that all legislation considered by Congress and all regulations proposed by federal regulatory agencies be accompanied by an analysis of how they would affect the economy and employment. Nickles' provision was called the Economic and Employment Impact Act.

The Clinton administration, including the Small Business Administration, opposed the provisions during their consideration by the Senate and the conference panel.

Lobbying

Chamber Wins On Disclosure

Continued from Page 89

and the right to petition Congress, said Lonnie Taylor, Senate liaison for the Chamber. It would have had a "chilling effect" on the ability to communicate with members of Congress, he added.

The legislation would have required anyone who was paid or incurred expenses of more than $2,500 in a six-month period for "lobbying" Congress, congressional staffs, or most executive branch employees (including the president and vice president) or who spent more than 10 percent of his or her time "lobbying" to register and file twice-yearly reports with an Office of Lobbying Registration and Public Disclosure.

The initial registration would have required organizations that lobby to include the names and addresses of their clients or members who paid more than $5,000 "toward the lobbying activity."

Lobbying was defined as including oral or written communication to a covered executive or legislative branch official "made on behalf of a client with regard to the formulation, modification, or adoption of federal legislation or regulation, executive order, or any policy, program, or position of the United States government." Exceptions were testimony or submissions for the public record and written responses to written requests from federal officials.

The bill also included contacts regarding the "negotiation, award, or administration of a federal contract, loan, permit, or license."

Every six months, groups would have been required to submit detailed accounts of their lobbying activities.

The specific issues lobbied, a list of the organization's employees who lobbied, and estimates of income and expenses made in connection with lobbying activities would have had to be reported.

Fines would have been up to $10,000 for a minor offense and up to $200,000 for major violations.

The legislation also would have banned gifts—though there were numerous exceptions, such as political campaign contributions—from lobbyists to lawmakers or executive branch officials and meals costing more than $20. The gift-ban aspect of the bill received much of the media coverage during this legislative battle. The Chamber focused solely on the lobbying provisions.

■ Health Care

Radical Bills' Death "Good News"

The U.S. Chamber of Commerce hailed the recent demise of radical health-care reform proposals in Congress as "good news for the American people."

"Congress has done the right thing by not rushing health-care reform," said Chamber President Richard L. Lesher after House and Senate leaders agreed in late September to give up efforts to pass reform measures this year.

The most prominent bills included proposals by Senate Majority Leader George J. Mitchell, D-Maine, and House Majority Leader Richard A. Gephardt, D-Mo. Their plans revived many of the major recommendations that were first advanced by President Clinton but could not gain enough support to advance even in a Democratic-controlled Congress.

Like the Clinton plan, the proposals by Mitchell and Gephardt would have required employers to pay for most of their workers' health-insurance premiums, imposed new taxes, and injected significant government bureaucracy into the health-care system—all provisions opposed by the Chamber.

A so-called "mainstream" bill developed by a group of about 20 senators called for, among other provisions, limiting the deductibility of employer contributions for workers' health-insurance premiums, requiring employers with 100 or more workers to offer at least two insurance plans to their employees, prohibiting employers of fewer than 100 workers from setting up self-insured plans, cutting the amount employers could deduct for health-care premiums they pay on behalf of workers, and allowing states to set up state-run single-payer health systems.

"Congress listened to the American people and didn't destroy the world's best health-care system for the sake of partisan politics," Lesher said. "As the U.S. Chamber and the public have said repeatedly, there is no hurry when one-seventh of the U.S. economy is at stake.

"Let's start over and do it right. As we have learned, health-care reform must be market-based," he said.

The Chamber has pushed for a package of eight market-based reforms—its "American Plan." The plan was formulated in response to a poll of the organization's 220,000 members. It calls for:

- Insurance reforms to ensure availability and portability of coverage.
- Consumer choice.
- Voluntary purchasing pools for small employers and individuals.
- Simplified administration.
- Malpractice reform.
- Price and quality report cards on health-insurance plans.
- A standard minimum benefits package that all insurers would offer to allow comparison shopping.
- One hundred percent deductibility of insurance premiums paid by the self-employed.

Principal elements of the Chamber's "American Plan" were incorporated into a proposal developed by Senate Minority Leader Bob Dole, R-Kan., and nearly 40 other senators.

■ Environment



In addressing the U.S. Chamber's environment committee Sept. 13, Rep. Jimmy Hayes, D-La., discussed the need to use sound science in environmental policy-making. The Chamber has been a major advocate of basing legislative and regulatory decisions on sound science and will continue to urge lawmakers to do so when the 104th Congress convenes in 1995. Several major environmental laws, including the clean-water and Superfund statutes and the Resource Conservation and Recovery Act, which deals with hazardous waste, are expected to be revised next year.

■ Unfunded Mandates

Relief Proposals Expire

House and Senate measures to curtail unfunded mandates imposed by lawmakers on the public and private sectors succumbed to legislative wrangling and time contraints as Congress adjourned.

Attempts to offer a host of unrelated—and contentious—amendments killed a bill sponsored by Sens. John Glenn, D-Ohio, chairman of the Governmental Affairs Committee, and Dirk Kempthorne, R-Idaho, that would have limited Congress's ability to impose costs on states and localities.

The Glenn-Kempthorne bill would have required the Congressional Budget Office (CBO) to conduct a cost-impact analysis of any legislation expected to add $50 million or more to state and/or local costs. If no analysis were completed on a bill, any senator could prevent consideration of the legislation until a study was conducted or funds were authorized for the cost of implementing the mandate.

The legislation also included a provision that would have extended that requirement to unfunded mandates costing the private sector $200 million or more. The U.S. Chamber of Commerce had worked with Sen. Byron L. Dorgan, D-N.D., the provision's sponsor, to get the private-sector measure included in the bill.

In the House, the Government Operations Committee approved an unfunded-mandates measure sponsored by Reps. John Conyers Jr., D-Mich.—the panel's chairman—and William F. Clinger Jr., R-Pa., on Oct. 5. The Conyers-Clinger measure was similar to the Glenn-Kempthorne bill, but its provision on private-sector unfunded mandates was weaker than the Senate bill's.

It would have required the CBO to analyze only a few of the many bills in any congressional session that would impose unfunded mandates on the private sector.

Reps. James P. Moran Jr., D-Va., and William F. Goodling, R-Pa., were set to offer an amendment on the House floor to include an amendment similar to Dorgan's, but the House adjourned before considering the Conyers-Clinger bill.

The Chamber's efforts to limit unfunded mandates will continue in the 104th Congress, which will convene in January.

■ "First Business"



"First Business," the weekday business-news television program of the U.S. Chamber of Commerce, has expanded its reach in syndication to 22 local broadcast stations around the country in addition to being carried nationwide on the USA Network. Stations in Boston, Salt Lake City, and Kansas City, Mo., are the most recent to pick up the program. "First Business," anchored by Barton Eckert, airs Monday-Friday on the USA cable network at 6 a.m Eastern and Pacific times, 5 a.m. Central time, and 4 a.m. Mountain time. It is available in syndication after 6:30 a.m. Eastern and Pacific times, 5:30 a.m. Central time, and 4:30 a.m. Mountain time.

■ GATT

Key Trade Vote Set

Continued from Page 89

for a lame-duck session in late November to consider the matter.

Already, the Chamber has sent alerts to more than 10,000 of its activist members through its Grassroots Action Information Network (GAIN) and has urged its AmChams—American chambers of commerce in other countries—to urge approval as well.

GATT's Uruguay Round Agreement—named for the South American country where global trade talks began in 1986—is expected to cut global tariffs by more than one-third, eliminate tariffs in some export sectors, protect intellectual-property rights, reduce agricultural subsidies, and bring services under GATT's auspices. (For more details on benefits expected to result from the agreement and the addresses and phone number for the House and Senate, see Page 95.)

The accord, which was signed by 117 countries in mid-April, is scheduled to go into effect Jan. 1, 1995.

Said Willard A. Workman, vice president/international for the Chamber: "If the United States fails to sign on to this agreement, we not only will deny ourselves immense benefits, but also will cause major harm to U.S. companies and workers striving to compete in the global marketplace.

"Other countries with closed markets will have all the excuses they need [if the U.S. fails to ratify GATT] to continue their own unfair trade practices that injure U.S. firms and workers."

The Chamber has said that GATT would accelerate U.S. exports and economic growth and would create hundreds of thousands of jobs in this country.

■ Trade

Seminar To Highlight Trade With Mexico

The United States-Mexico Chamber of Commerce, in cooperation with the U.S. Chamber of Commerce, is holding a seminar on doing business in Mexico on Nov. 16-17 at the U.S. Chamber's headquarters in Washington.

The seminar will highlight the effects of the North American Free Trade Agreement on trading with and operating in Mexico and will feature U.S. and Mexican business leaders as speakers.

Among the topics to be discussed: joint ventures and strategic alliances, foreign investment laws, protection of intellectual property, and dispute resolution under NAFTA.

For more information about the seminar, contact the U.S.-Mexico Chamber at (202) 296-5198.

■ Capitol Hill

Vote Positions Chamber Well On Paperwork

In a significant victory for business and the U.S. Chamber of Commerce, the Senate passed legislation Oct. 6 that would reauthorize and strengthen the Paperwork Reduction Act.

The act was adopted in 1980 to limit paperwork required by the federal government. It expired in 1989.

Although the House did not consider a measure similar to the Senate bill before Congress adjourned Oct. 8 for pre-election campaigning, the Senate win lays the groundwork for action next year in both houses, said Nancy Fulco, human-resources attorney for the Chamber.

The Senate measure, approved by voice vote, was sponsored by Sens. Sam Nunn, D-Ga., and Dale Bumpers, D-Ark. The similar House bill was sponsored by Reps. Norman Sisisky, D-Va., and William F. Clinger Jr., R-Pa. It had languished in the Government Operations Committee. The measures are expected to be reintroduced early in the 104th Congress.

Both bills called for a reauthorization of the Paperwork Reduction Act for five years, a 5 percent annual cut in government paperwork, and a strengthening of the ability of the federal Office of Information and Regulatory Affairs (OIRA) to ensure that regulatory agencies comply with the paperwork statute.

OIRA, part of the Office of Management and Budget, is charged with reviewing federal agencies' regulations and paperwork requests to determine their projected costs and benefits.

The legislation also would have reversed a 1990 U.S. Supreme Court decision that said OIRA only had authority to control agency requests for the disclosure of information to the federal government, not to third parties, such as police and fire departments. That ruling effectively cut OIRA's paperwork jurisdiction by one-third, according to the law's proponents.

Federal paperwork costs the nation billions of dollars a year, according to the Chamber, which points out that much of the paperwork is duplicative and unnecessary. Several studies on federal regulations have found that reauthorization of the paperwork law could save the economy more than $6 billion a year.

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U.S. Chamber Member Services

The U.S. Chamber of Commerce offers a number of services and publications to its members. Each month, *The Business Advocate* will feature a partial listing of these member benefits.

Management Training



Quality Learning Services (QLS) Division offers televised management seminars via satellite to local sites. Top experts in the quality-management field are the principal speakers. See details on the spring seminar series on Page 99. For information, including prices for downlinks and taping rights, call 1-800-835-4730 or (202) 463-5940. A catalog of management-training videotapes is also available by calling the same numbers.

Litigation Center

The National Chamber Litigation Center is a public-policy law firm that participates in cases important to business. Further information is available from Robin Conrad, NCLC, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000 or by calling (202) 463-5337.

The center publishes *The Business Counsel*, issued quarterly, and *Case List*, published eight times a year, to keep business informed about court cases in which the NCLC is involved. Both publications are free to NCLC members. The cost to nonmembers is $45 a year. Contact Cam Esser, (202) 463-5341.

How To Influence The Government

Chamber publications to help business people be more effective in government include:

Congressional Handbook—A pocket-size directory, updated yearly, listing all members of the U.S. House and Senate, their telephone numbers, key staff members, and district/state office information. The handbook also includes each member's cumulative U.S. Chamber vote rating and contains listings of the House and Senate committees with seniority rankings. Price is $4.50 for members, $5 for nonmembers of the Chamber.

A Guide To Communicating With Members of Congress—This guide offers valuable information on how and when to make your point of view known to members of Congress. It includes addresses for sending correspondence to House and Senate members, tips on what and what not to say, and a glossary of legislative terms. Price is $3.75 for members, $4.25 for nonmembers.

To order these publications, write to Publications Fulfillment (RKVL), 1615 H Street, N.W., Washington, D.C. 20062-2000 or call 1-800-638-6582 (in Maryland 1-800-352-1450). Discounts are available for bulk orders.

How They Voted

How They Voted—Lawmakers are rated on their votes on key legislative issues that affect business. Published yearly—for each of the two sessions of a Congress—it also contains members' cumulative U.S. Chamber vote rating for their tenure in office. Price is $3 for members, $3.75 for nonmembers. See order information in item above.

Grass-Roots Network



The Chamber's Grassroots Action Information Network (GAIN) offers Chamber members with legislative interests an opportunity to directly influence and shape public policy. GAIN provides issue backgrounders and updates and alerts members when legislation nears a vote in Congress. GAIN is available at no cost to all U.S. Chamber members. To participate in GAIN, contact the Office of Membership Grassroots Management at (202) 463-5604.

Policy Briefings

The Chamber's Briefing Center designs and conducts meetings at which representatives of businesses, state and local chambers of commerce, and trade associations receive specialized presentations on public-policy issues affecting their respective organizations. For more information or to arrange a briefing, call (202) 463-5414.

Improving Education



The Center for Workforce Preparation works on behalf of business to mobilize, recognize, and publicize the leadership that local and state chambers of commerce are providing to improve education throughout the country. Among many other activities, the center maintains a data-base clearinghouse of local education reform initiatives undertaken by chambers across the country. For more information on the center's work and available publications, call Michelle Griffin at (202) 463-5525.

Education Loans

The Chamber's ConSern: Loans for Education program provides private credit-based long-term loans to Chamber members and their employees for college and secondary school. To become a ConSern sponsor or for information, call 1-800-697-LOAN (1-800-697-5626).

Export-Import Information

Numerous publications on international agreements, exporting, and other trade subjects are available from the International Division. For details, call Kevin Carroll at (202) 463-5460.

Publications

Nation's Business, the Small Business Adviser, provides a full range of information necessary for successful entrepreneurship. The magazine is published monthly. Subscription prices: one year, $22; two years, $35; three years, $46. For Canada and other foreign countries, add $20 per year. Order from Circulation Dept., *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5433.

Reprints of *Nation's Business* articles are available by calling 1-800-692-4000.

Advice on business-management subjects is available from *Nation's Business* on video and audio tapes and on computer software. To obtain information on topics and to place orders, call 1-800-765-9341.

MarketFax offers instant response on orders for selected *Nation's Business* articles. Call toll free 1-800-597-7363 and enter 831 to receive a free list of "how-to" articles.

The Business Advocate, a supplement to *Nation's Business*, reports on U.S. Chamber activities to achieve members' goals. Published each month except September and January. *The Business Advocate* is distributed without additional charge to Chamber members.

TV Programs

"First Business," the only national weekday television news program aimed at small-business people, airs Monday-Friday on the USA cable network at 6 a.m. Eastern and Pacific times and 5 a.m. Central time. It is also available on three regional cable operations and 20 local broadcast stations after being shown on USA cable. Check local television listings to determine availability and time in your area. This report features national and international news plus in-depth, how-to reports on starting and operating a small business.

"It's Your Business" is a weekly public-affairs television show on which leading figures in the government and business debate current issues affecting business. It is shown on more than 130 stations across the country. Check local listings for time and date of airing.

Broadcast Facilities

The Chamber's television facilities in Washington, D.C., can be rented for videoconferences, professional briefings, and other programs. Contact Suzi Montes de Oca, (202) 463-5921.